

**Statement of Julie A. Veach  
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Federal Communications Commission  
Before the  
Subcommittee on Communications and Technology  
Committee on Energy and Commerce  
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**INTRODUCTION**

Good morning Chairman Walden, Ranking Member Eshoo, and Members of the Subcommittee, and thank you for the opportunity to appear today to address the Federal Communications Commission's reforms to the Lifeline Program.

For more than 25 years, the Lifeline program has helped ensure that the neediest among us have basic access to our nation's communications networks. The program started in 1985; then, in the Telecommunications Act of 1996, Congress codified the principle that "consumers in all regions, including low-income consumers . . . should have access to telecommunications and information services." The Commission's Lifeline program implements that directive. Since its beginnings, Lifeline has helped millions of low-income Americans afford basic telephone service, which in turn has allowed them to find jobs, access health care, connect with family, and call for help in an emergency. Real world examples of individuals using Lifeline include the man in Atlantic City, New Jersey, who used his Lifeline service during Hurricane Sandy to maintain contact with family members fleeing the storm; the 82-year-old Lifeline subscriber who successfully called for help when her car broke down; and the woman in Baltimore, Maryland, who was able to contact doctors for her sick child while they live in a homeless shelter.

In recent years, the adoption and use of mobile communications indelibly changed the communications landscape; the Lifeline program grew both in importance to low-income consumers and in dollars spent. Seeing the facts, in 2009 the Commission started overhauling the program to make it more accountable; to root out waste, fraud, and abuse; and to modernize it to meet the communications needs of low-income Americans, while minimizing the burden on the consumers and businesses that fund the program. These steps have fundamentally altered the course of the program. Disbursements have declined steadily from \$185.1 million in December 2012 to \$143.7 million in March of this year. Overall, the changes implemented by the Commission are expected to lead to \$2 billion in savings through the end of 2014. These steps are consistent with the Commission's overarching goal of bringing greater fiscal responsibility to all four of the universal service programs while ensuring that the programs keep pace with the changing communications landscape. My testimony will provide a description of the history of the Lifeline program and the steps the Commission has taken to reform it.

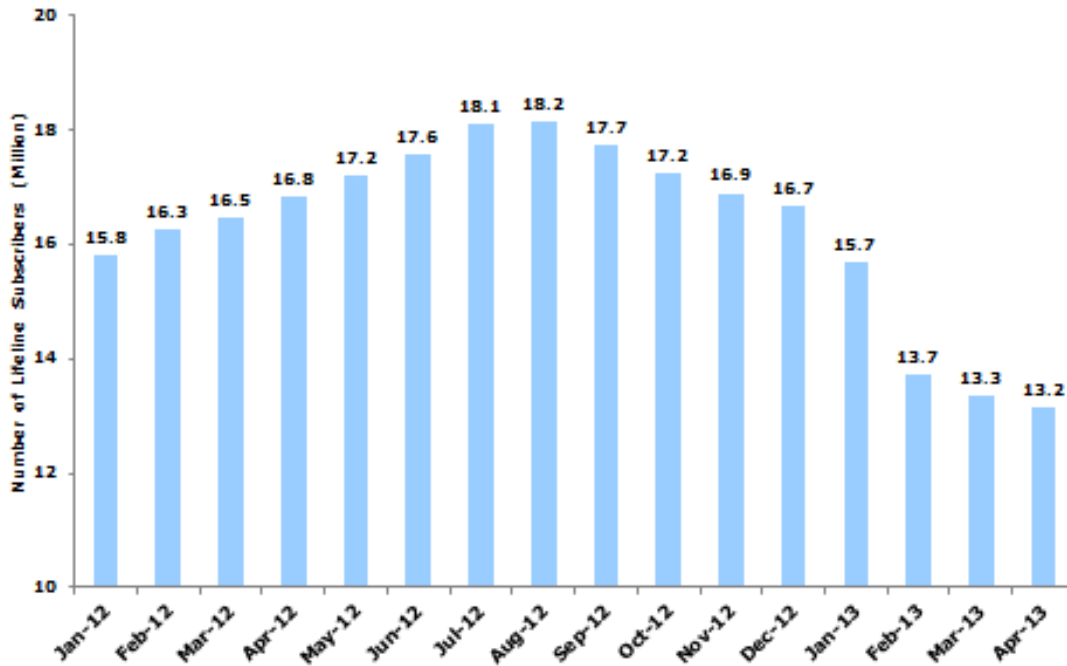
## **FCC REFORM OF LIFELINE**

The FCC established the Lifeline program in 1985 in the wake of the divestiture of AT&T to ensure that low-income consumers had access to affordable telephone service. That original program was for a phone service delivered through one wire into the home. In the 1996 Telecom Act, Congress codified into law the principle of ensuring that low-income consumers have access to communications services. As American consumers increasingly began to adopt wireless services, the universal service program adapted to support wireless service in rural areas through the high-cost fund and for low-income families under Lifeline. In 2005, the FCC determined that under certain conditions non-facilities based wireless providers could participate in the program as Lifeline-only Eligible Telecommunications Carriers (ETCs). The Commission's goal was to foster more competition among providers to improve consumer choice. In 2008, the first such providers were authorized to receive Lifeline funding. Because adequate protections were not put in place when these decisions were made, the Lifeline program became a target for waste and abuse.

As it became clear that sufficient protections were not in place to ensure that carriers only received support for serving eligible consumers, the Commission took action to correct these problems. In 2009, Chairman Genachowski urged FCC staff to assess the broadband needs of our nation, including universal service. Staff produced the National Broadband Plan in March 2010 in which, among other recommendations, it encouraged the FCC to work with states to clarify Lifeline program obligations and determine eligibility best practices. Shortly thereafter, in the spring of 2010, the FCC asked the Federal-State Joint Board on Universal Service (Joint Board) for input on reforming the Lifeline program.

Building on recommendations from the Joint Board, as well as recommendations in a 2010 report from the Government Accountability Office (GAO), in 2011 the FCC initiated reforms of the Lifeline program not only by commencing a comprehensive rulemaking but also by implementing intermediate steps directed at reducing duplicative support, including targeted audits. The rulemaking ultimately culminated in a complete overhaul of the program in early 2012 when the Commission approved the Lifeline Reform Order. The reforms unanimously adopted by the Commission last year, and referred to as "a model of entitlement reform" by Commissioner Robert McDowell, have already resulted in hundreds of millions of dollars in savings to the Universal Service Fund and a steady decline in Lifeline subscribers every month since August 2012 (see chart below).

## Lifeline Subscribers (January 2012 – April 2013)



The Lifeline program is currently on track to save approximately \$2 billion by the end of 2014. These savings will be achieved through reform and modernization of all aspects of the program. The reforms include: (1) requiring consumers to provide proof of eligibility at enrollment; (2) requiring consumers to certify that they understand key program rules and to recertify annually their continued eligibility for support; (3) limiting the Lifeline benefit to one per household; (4) eliminating Link Up support for all providers except those that receive high-cost universal service support on Tribal lands; (5) establishing a uniform, nationwide floor for consumers' eligibility to participate in the program, which states may supplement; (6) enhanced requirements concerning marketing and advertising practices of supported carriers; and (7) putting in place a robust audit requirement for providers entering the Lifeline program and an ongoing independent audit requirement for providers drawing more than \$5 million from the Fund.

For the first time, the Commission adopted clear goals for the program: ensuring the availability of voice and broadband services for low-income Americans and minimizing the burden on the consumers and businesses who contribute to the program. The Commission will measure progress towards these goals by examining, among other things, the relationship between spending on the Lifeline program and penetration rates among low-income consumers.

In addition, the Commission, in partnership with the Universal Service Administrative Company (USAC), the administrator of the Fund, has also identified and cut substantial amounts of duplicative Lifeline support, resulting in the de-enrollment of hundreds of thousands of

subscribers with more than one Lifeline supported service. And at our direction, USAC is building the National Lifeline Accountability Database that will, by the end of this year, detect and prevent duplicative support before it occurs. These reforms are in place, are working as intended, and are cutting waste, fraud and abuse from the program while ensuring that low-income consumers have access to basic communications.

Let me walk you through each of the Commission's reforms and quantify the savings to the Fund as a result of the Commission's reforms:

#### *Proof of Eligibility, Certification and Recertification*

In reforming the Lifeline program, the Commission took several steps to ensure that only eligible consumers that affirmatively request Lifeline service are able to receive it.

First, Commission rules require documented proof of eligibility for all consumers enrolling in Lifeline. Prior to the Lifeline Reform Order, consumers in most states did not have to prove that they were eligible for Lifeline. Rather, most subscribers only had to self-certify their eligibility. Based on verification data collected by the states and the Commission, it was apparent that ineligible consumers were receiving Lifeline supported service. To end this, the Commission's reforms require that subscribers now prove eligibility at the time of enrollment. Such proof can be established through state eligibility databases where available or by a review of documentation provided by the consumer. This Commission will not tolerate participation in the program by ineligible consumers and is working closely with other federal agencies to automate the eligibility check.

Second, consumers must certify their eligibility at the time of enrollment. This means that they must attest that, under penalty of perjury, they understand and will comply with program rules. Providers are also required to make disclosures to consumers regarding the nature of the Lifeline benefit and the consumers' duty to comply with the rules. These certification and disclosure requirements work in tandem with the proof requirement described above to ensure that only eligible consumers sign up for support.

Third, the Commission put in place a robust recertification requirement to ensure that only eligible subscribers remain in the program. Prior to adoption of the Lifeline Reform Order, subscribers were not required to confirm their ongoing eligibility. Subscribers must now recertify their continued eligibility annually. A subscriber that fails to recertify in time but still remains eligible for Lifeline has the opportunity to reenter the program but must go through all the required steps of a new subscriber, including the requirement to provide proof of eligibility. This reform alone is projected to save \$400 million in 2013.

#### *Eliminating Duplicative Support*

Since 2011, before the release of the Lifeline Reform Order, the Commission has worked on several fronts to eliminate duplicative Lifeline support. For example, through targeted audits known as In-Depth Data Validations (IDVs) initiated in June 2011, we have eliminated 1.5 million duplicate Lifeline subscriptions in nearly 30 states, saving the Fund \$180 million a year.

In addition, construction of the National Lifeline Accountability Database has begun which will permanently detect and prevent duplicative support in violation of our one-per-household rule.

While the database is in production, USAC will continue with its IDV process to scrub the rolls and eliminate duplicate subscriptions. Thus far, USAC has reviewed over 18.8 million Lifeline subscriber records to check for duplicate subscriptions, and plans to review an additional 8 million subscriber records before the end of the year.

#### *Eliminating Unnecessary Connection Fees*

The FCC eliminated Link Up support to providers offering service on non-Tribal lands. Link Up was originally intended to offset the charges providers imposed for activating telephone service. The FCC concluded that the subsidy was no longer necessary in most instances because consumers increasingly have service options from providers that neither draw upon Link Up support nor charge the subscriber an activation fee. In short, some carriers were receiving significant amounts of Link Up support for the purpose of signing up new customers, not for activating new service. However, given the significant telecommunications deployment and access challenges on Tribal lands, the FCC maintained enhanced Link Up support for those ETCs that also receive high-cost support on Tribal lands. By targeting Link Up support to only those areas where support is necessary, Link Up expenditures dropped from roughly \$14 million per month in May to less than \$200,000 in December 2012, resulting in a savings of over \$93 million in 2012.

#### *Usage Requirements*

To ensure that Lifeline subscribers are actually using the subsidized service, the FCC has imposed “non-usage” procedures on providers that do not require their subscribers to pay monthly charges. These providers must de-enroll a subscriber if the subscriber does not use the service for 60 days. In 2012, over 275,000 Lifeline subscriptions were eliminated due to inactivity, saving the Fund over \$30 million on an annual basis.

#### *Consumer Disclosures*

The FCC has also taken a number of steps to protect and empower low-income consumers, including new measures to ensure that consumers are informed of program requirements. Lifeline providers are required to include in plain, easy-to-understand language in all Lifeline marketing materials specific disclosures, including a disclosure telling the consumer that Lifeline is a government benefit program, that a consumer must be eligible to receive Lifeline service, and that the consumer may receive no more than one benefit per household. Lifeline providers must also disclose that consumers who willfully make false statements in order to obtain program benefits can be punished with a fine or imprisonment or barred from the program.

### *Enhanced Oversight of Lifeline Providers*

The FCC takes seriously its responsibility to ensure its rules are followed and to identify and deter any future program abuse. Indeed, the FCC has adopted new requirements to increase oversight of Lifeline providers and enhance the auditing program. USAC will audit all newly designated Lifeline providers that have not previously provided Lifeline services anywhere in the country to ensure they have established effective controls and procedures to comply with the FCC's rules. To ensure accountability and maintain oversight for the largest recipients in the program, the FCC is also implementing independent audits that will apply to those Lifeline providers that draw \$5 million or more from the Fund in a given year. Every two years, a Lifeline provider drawing more than \$5 million from the fund must hire an independent auditor to conduct an audit by assessing the provider's overall compliance with the Lifeline program's rules.

We recognize that the integrity of the Lifeline program requires compliance with and enforcement of the program's rules. In addition to the audit requirements, we are actively enforcing our rules to punish and deter violations. Recently, the FCC's Enforcement Bureau pursued actions against two providers that resulted in an enforcement action worth over \$1 million; other investigations are ongoing. In addition, the Enforcement Bureau has issued nearly 200 citations to individuals in eight states notifying them that they violated the Lifeline program rules by receiving multiple Lifeline benefits. These citations order the consumers to cease and desist from applying for—or receiving—more than one Lifeline-supported phone service, and warn them that the FCC may impose a monetary fine if the violations continue.

While the Commission's reforms have taken hold and reduced program disbursements, we recognize that our work is not complete. The Commission is continuing to monitor the impact of its reforms to see whether additional measures are necessary to ensure the integrity of the Lifeline program.

### *Role of States in Implementing Lifeline Reforms*

The states have an important role in overseeing the program as well—they have been our partners in reform and remain our partners in oversight and enforcement. Indeed, states have often served as laboratories of policy innovation in this area and as vital guarantors of universal service.

Under section 214(e)(2) of the Communications Act, states designate providers as ETCs to participate in the Lifeline program, including in most cases wireless ETCs. Currently, all but ten states and the District of Columbia handle the designation of Lifeline-only wireless ETCs to participate in the program. States have broad authority to conduct thorough reviews of ETC applications. The FCC's new rules require that providers demonstrate that they are “financially and technically capable of providing Lifeline service in compliance with program rules.” In deciding whether to designate a provider to participate in Lifeline, a state must, among other things, review how long the company has been in business, whether the provider intends to rely exclusively on universal service disbursements to operate its business, whether the provider

receives or will receive revenue from other sources, and whether it has been subject to enforcement action or ETC revocation proceedings in any state.

As part of its ongoing commitment to fight waste, fraud, and abuse in the program, the FCC now requires that all non-facilities-based providers seeking to become Lifeline-only ETCs first have a compliance plan approved by the Wireline Competition Bureau before being designated as an Eligible Telecommunications Carrier by a state or the Commission. Commission staff thoroughly reviews these plans to ensure that providers have procedures in place to adhere to the new stringent program requirements.

In addition, the Lifeline Reform Order established two key ways that states can continue to operate as laboratories for reform. First, the Lifeline program rules are a foundation upon which states can build. For example, states may adopt rules and safeguards for the program that go beyond the FCC's recent reforms. Indeed, California and Georgia are among several states that have adopted rules that go beyond the FCC's core requirements for the program. States may also include other programs that qualify consumers for Lifeline as long as those programs are related to income. Second, the Commission established a process by which states with their own system to detect and eliminate duplicative support can opt-out of the National Lifeline Accountability Database. This allows states to keep in place effective systems to eliminate waste, fraud and abuse while limiting the administrative burden on the national database. Four states and Puerto Rico have opted-out of the national database.

### *Affordable Broadband*

These reforms are putting the program on a firm footing for the future, so it can more effectively serve low-income consumers, including helping low-income consumers afford broadband. Consistent with the language and purposes of the Communications Act, the Lifeline Reform Order establishes as a core program goal ensuring universal availability of broadband for low-income Americans. Using a portion of the savings from the Lifeline program reforms, the Commission currently has underway a broadband pilot program that will provide critical data and rigorous analysis regarding how Lifeline can potentially help efficiently and effectively increase broadband adoption and retention among low-income consumers.

Robust, affordable broadband has become essential to access jobs, education, and economic opportunity. Over 80 percent of Fortune 500 companies today – including Wal-Mart and Target – require online job applications. And students with broadband at home have a 7 percent higher graduation rate. But low-income households adopt broadband at much lower rates than the average household: Fewer than 36 percent of families with incomes less than \$25,000 subscribe to broadband at home, compared to nearly 92 percent of families with incomes over \$75,000, according to the U.S. Census Bureau.

Pursuant to the Commission's directive, the Wireline Competition Bureau has initiated an 18-month Broadband Pilot Program consisting of 14 high-quality projects. Data from these projects – together with data from other low-income broadband adoption programs around the country, including those funded by the American Recovery and Reinvestment Act, Comcast's Internet Essentials, Centurylink's Internet Basics, and the Connect-to-Compete program – will

be rigorously analyzed to ensure a full understanding of how Lifeline might support broadband.

## **CONCLUSION**

In closing, I wish to emphasize that the goal of these reforms to the Lifeline program is to ensure that the truly needy in our nation are not deprived of something as basic to everyday life as phone service. Indeed, access to phone service increases access to employment, medical care, and social services—things that can ultimately lift consumers out of poverty.

We recently heard from a Lifeline subscriber whose story epitomizes the benefits of this program. The subscriber is a single father of two children, one of them with special needs. After being laid off from an engineering firm, he worked a series of part-time jobs (painting houses, retail, etc.) to try to support himself and his family. His landline and mobile phone service were eventually turned off because he could not afford them, leaving him with no way to communicate with his children's doctors and caregivers, and no way for prospective employers to reach him. After obtaining Lifeline service, he was able to connect with employers and secure a job. This is just one example of how Lifeline service has served as a gateway for low-income Americans to connect and participate in today's society.