

**The Right Call:
A \$1.5 Billion Economic Stimulus Plan for Illinois**

A report prepared by the Citizens Utility Board

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EXECUTIVE SUMMARY

As lawmakers on Capitol Hill debate ways to jumpstart the nation's economy, consumers right here in Illinois have a potential "economic stimulus package" worth more than a billion dollars buried in their very own bloated phone bills.

Barraged by confusing and overpriced plans, aggressive sales tactics, and incomprehensible bills, most consumers find it nearly impossible to make the right choices for their phone service. As the following report details, the vast majority of Illinois consumers are overpaying and could save an average of **\$575** a year on their phone bills, without sacrificing usage or calling features.

By making simple changes to local, long-distance and wireless phone bills, Illinois consumers could save a combined total of **\$1.5 billion** in the first year alone. Annual savings after that would be **\$1.4 billion**.

Consumer savings of that magnitude would provide a significant boost to the Illinois economy, a stimulus in line with what could be expected from a **14 percent tax cut**.¹ When consumers spend less on their fixed monthly expenses, they have more discretionary income. That extra money in their pocket, in turn, stimulates the economy, helping to create jobs and improve other economic indicators.

Highlights of the report's findings include:

- The vast majority of AT&T customers could save an average of about **\$15.60 a month, or \$187.15 a year**, by choosing a more affordable local service plan.²
- Illinois consumers could save an average of about **\$6.68 a month or \$80.12 a year** by switching from AT&T, Verizon or the other big name long-distance carriers to lower-priced offers, such as Pioneer Telephone's "Rate Buster" plan, which includes a CUB-negotiated one-time \$20 credit for Illinois consumers.
- Most Illinois wireless users could save an average of **\$25.69 a month, or \$308.28 a year**, by downsizing their calling plans, dropping unnecessary features, or switching providers.

¹ \$1,515,302,012.73 is 14 percent of the FY 2008 Illinois Individual Income Tax revenues, which totaled \$11,169,401,414.

² The current report does not analyze potential local savings for Verizon or other Illinois phone companies because comparable data is not available.

CUB operates an extensive, statewide phone-savings outreach program that provides consumer services not found anywhere else. In CUB's 25th anniversary year, the consumer group will expand the program, attempting to realize the **\$1.5 billion** in potential savings documented in this report. "The Right Call" campaign will include public-service announcements and a statewide tour to educate consumers about these money-saving opportunities in the phone market.

LOCAL SERVICE: AN EPIDEMIC OF HIGH PHONE BILLS

CUB conducts individual phone-bill analyses, operates a toll-free Phone Savings Hotline, **1-866-688-4282**, and provides an online phone-bill analysis tool, the Local Phone Cost-cutter. These services have been in operation for the last two years.

Through January, 27,054 customers had taken advantage of the Local Phone Cost-cutter. This service requires consumers to provide usage and price data from their local phone bills. A computer program analyzes that data and recommends ways to save. The vast majority of users, 87 percent, found ways to cut their local bills without sacrificing service.

The biggest savings were produced when customers on expensive, all-you-can-eat phone packages—plans that provide unlimited calling and a host of extra features that are rarely used—switched to one of AT&T's Consumer's Choice plans or the company's standard pay-per-call rates. Additional savings were seen by dropping unnecessary features such as "inside-wire maintenance" plans, called Line-Backer by AT&T, that cover certain telephone-wire repairs needed about once every 20 to 30 years, on average.³

The Consumer's Choice plans were designed by CUB to match most callers' needs. Under a 2006 legal settlement approved by the Illinois Commerce Commission (ICC), AT&T is required to offer them.⁴ Consumer's Choice Basic, at a cost of \$3.05 to \$9.50 a month depending on service area, offers 30 local calls (to places 0-15 miles from home). Consumer's Choice Extra, at a cost of \$13 to \$16 a month, provides unlimited local calls. Consumer's Choice Plus, \$16 to \$19.85 a month, provides unlimited local calls plus two calling features.

Data provided to CUB by AT&T as part of the legal settlement showed that the vast majority of consumers pay too much for phone service and could save by switching to one of the CUB-designed plans.⁵ That company-wide data is borne out by CUB's evidence gathered from consumers over the past two years.

³ Statistic from "Telephone Line Repairs," a publication of Office of the Ohio Consumers' Counsel, Nov. 2007.

⁴ The Consumer's Choice plan prices are frozen through 2011.

⁵ Data obtained in ICC Docket # 06-0027.

Most consumers could save an average of **\$187.15 a year** on local service by switching to a less expensive Consumer's Choice calling plan or the company's standard rates. Since the price of phone service varies by geographic area, those savings also vary slightly depending on where customers live. Applying those savings statewide to AT&T customers produces an annual economic benefit of **\$485 million**.⁶ These savings numbers have the potential to be vastly greater, given the fact that this part of CUB's report—the local analysis—does not include Verizon and other state phone companies because there is no comparable data.

The data also show that the greatest savings could be found with Consumer's Choice Basic. That plan was recommended as a money-saving option about 58 percent of the time. Consumer's Choice Plus was the next most beneficial plan, recommended about 32 percent of the time. AT&T's standard pay-per-call rates and Consumer's Choice Extra were recommended about 8 percent and 1.2 percent of the time, respectively.

The value of Consumer's Choice Basic is not surprising given that the data show that users make an average of just 86 local calls a month, or less than three a day. The popularity of the Consumer's Choice Plus plan also makes sense, given that 78 percent of users opt for at least one extra calling feature. According to data from the Local Cost-Cutter, the three most popular features chosen, respectively, are Caller ID with Name, Call Waiting and Voice Mail.

Total statewide local savings: \$485,248,725.90 a year

LONG DISTANCE: WASTED POTENTIAL SAVINGS

As with local service, most consumers today pay too much for local toll and long-distance calling. Although the long-distance market has seen the most robust competition in the telecommunications industry, AT&T, with a powerful marketing operation and, thus, the most recognized brand, continues to dominate, 25 years after the break-up of "Ma Bell" opened the door for rival companies to take on the phone giant.⁷ Despite competition, the unfortunate reality for Illinois consumers is that AT&T and other big-name companies that have a strong position in the market offer relatively high per-minute rates as well as fixed monthly charges, which customers pay even if they don't make any calls.

However, CUB's ongoing review of the long-distance industry uncovered one of the best deals in the country. Pioneer Telephone's "Rate Buster" plan offers per-minute rates of 1.9 to 2.7 cents

⁶ Annual savings \$187.15 applied to 87 percent of AT&T's 2,377,882 residential customers, from ARMIS Report, 43-08, and 602,386 Chicago-area CLEC customers, from the Illinois Commerce Commission's 2007 Telephone Competition Report, Table C2.

⁷ FCC Trends in Telephone Service 2008, Table 9.5.

per minute with no monthly fee for online billing.⁸ Compare that with one of AT&T's cheapest plans, "One Rate Nationwide," which even in the most conservative scenario would charge nearly three times the amount Pioneer would for 60 minutes of long-distance calls in a month.⁹ It is clear that consumers could reap significant savings by switching to other, more affordable long-distance carriers, such as Pioneer.

Based on average usage and price data from the Federal Communications Commission (FCC) Trends in Telephone Service and Statistics of Common Carriers reports, consumers could save an average of **\$27.18 a year** on in-state long-distance calling (to Illinois locations more than 15 miles from home) and **\$32.94 a year** on inter-state calling. That means total savings of **\$60.12** a year by switching to Pioneer Telephone. In addition, CUB in 2008 negotiated a \$20 one-time credit for all Illinois customers, boosting the first-year savings of the service change to **\$80.12**.¹⁰

Applying those savings statewide produces an economic benefit of **\$319.7 million**¹¹ in the first year—due to the CUB-negotiated credit—and after that an annual economic benefit of **\$239.9 million**.¹²

Total statewide long-distance savings: \$319,700,572.73

WIRELESS: BILLS SIGNIFICANTLY INFLATED

In August, CUB became the first nonprofit consumer group in the nation to launch a free online tool that automatically analyzes wireless bills of the five biggest carriers: AT&T, Sprint, T-Mobile, U.S. Cellular, and Verizon.¹³ CUB's "Cellphone Saver," www.CitizensUtilityBoard.org, allows visitors to upload a copy of their online wireless bill and within seconds view a detailed analysis of how that bill could be cut. Using state-of-the-art software from a Houston, Texas company called Validas, Inc., the online tool "reads" the bill, simultaneously searching for more economical calling plans and spotting unnecessary services, such as insurance or "roadside assistance," that customers pay for but may not need.

⁸ Pioneer, based in Portland, Maine, charges a 1.9 cents a minute in-state rate and a 2.7 cents a minute interstate rate. Consumers not living in AT&T or Verizon territories pay 3.3-4.9 cents per minute. The 99-cent "paper-bill fee" applies only in months when customers use less than \$15 worth of service.

⁹ AT&T's "One Rate Nationwide" charges 5 cents per minute, with a \$4 monthly fee.

¹⁰ CUB receives no benefit, financial or other, from the \$20 credit it negotiated with Pioneer Telephone.

¹¹ Annual savings of \$80.12 applied to Illinois' total access lines of 3,990,035, from ICC's 2007 Telecom Competition Report, Table C2.

¹² Total statewide savings after the first year do not include \$79,800,700 from the Pioneer credit.

¹³ Since then, the tool has been expanded to analyze Nextel bill formats still in use after that company's merger with Sprint. A small sample of those bills are included as part of this review.

In roughly the first five months of operation (mid-August to mid-January), the CUB Cellphone Saver analyzed 5,140 wireless bills, which averaged about two lines per bill and cost \$127.74 a month. It found that the vast majority of users, 77 percent, could save money by switching cellphone plans and/or cutting unnecessary services. Of the 3,949 bills for which the CUB Cellphone Saver was able to recommend savings, consumers were overpaying by an astounding **\$25.69 per month, or \$308.28 per year**. All told, the Cellphone Saver uncovered **\$101,449.81** in overcharges. Applying those savings to wireless customers across Illinois produced a total economic benefit of **\$710,352,714.11**.¹⁴

However, those savings could be even greater if consumers were able to choose plans that actually fit their calling needs. The CUB Cellphone Saver found that bills were burdened with an average of about **420 unused peak minutes** each month.¹⁵ That's about seven hours—nearly an entire workday—of wasted talk time. Sadly, it appears that wireless customers generally are herded onto pricey plans that force them to pay big bills for a vast amount of calling time they don't actually use.

Total statewide savings: \$710,352,714.11

CONCLUSION: ECONOMIC STIMULUS AT PHONE USERS' FINGERTIPS

Amid the worst financial crisis since the Great Depression, policy makers are debating various ways to stimulate the economy, including tax cuts and increased government spending to create jobs.

However, with much less effort and at no cost, Illinois consumers could spark their own economic stimulus by making the simple phone changes—without sacrificing service—documented in this report. The potential savings of **\$1.5 billion** would provide a much-needed boost to the state's economy. When consumers spend less on fixed monthly expenses, such as phone bills, they have more money to inject into the economy by purchasing goods and services. Those expenditures stimulate the economy and could create jobs.

To put the magnitude of the potential phone savings into perspective, in 2008, the state of Illinois received a total of \$11,169,401,414¹⁶ from individual state income taxes. Taking **\$1.5 billion**

¹⁴ Annual savings of \$308.28 for 77% of customers applied to total wireless households of 2,992,526, which is based on the total number of Illinois households with a landline phone and on TNS Telecoms data that showed wireless penetration of 75 percent in 2006.

¹⁵ This is the average of five out of the six wireless companies' unused peak minutes per bill. U.S. Cellular was excluded because it offers "free" incoming minutes.

¹⁶ FY 2008 Illinois Individual Income Tax receipts from the Illinois Department of Revenue.

out of the telephone companies' pockets and putting it back in consumers hands would stimulate the economy, providing consumers with the equivalent of a **14 percent** cut in state income taxes.

Freeing up **\$575** in cash that is normally sunk into the monthly phone bill would significantly impact individual households. For example, that amount would pay for:

- More than eight months of gas for the average Illinois driver¹⁷;
- Three weeks of groceries for the average family¹⁸;
- Six months of unlimited bus and train rides on CTA and Pace¹⁹;
- The average monthly car payment²⁰;
- Up to nine months worth of diapers²¹;
- Nearly three years of milk and more than five years of bread²²;
- New tires for two automobiles²³;
- A 37-inch flat-panel HDTV²⁴;
- Two iPhones and an iPod Nano²⁵;

This spending power is trapped in ballooning phone bills. However, unlocking it is surprisingly simple. Just as rising energy costs have increased our awareness of making our homes more

¹⁷ Assumes the average Illinois consumer uses 412 gallons of gasoline a year, according to statistics from the Energy Efficiency and Renewable Energy website of the U.S. Department of Energy (http://apps1.eere.energy.gov/states/energy_summary.cfm/state=IL) and gas prices at \$1.87 per gallon, from the Energy Information Administration's website (http://www.eia.doe.gov/oil_gas/petroleum/data_publications/wrgp/mogas_home_page.html) 2-2-09

¹⁸ Bureau of Labor Statistics for the average "consumer unit," two adults, 1.9 children

¹⁹ Monthly passes are \$86, according to www.TransitChicago.com

²⁰ Average monthly car payment is \$400, according to the National Auto Dealers Association

²¹ www.CostHelper.com estimate that disposable diapers cost around \$60-\$85 a month, depending on the age of the infant.

²² Assumes a \$4 gallon of milk and a \$2 loaf of bread used each week.

²³ Assumes \$65 per tire, as shown on www.DiscountTire.com

²⁴ Listed as \$549.99 on www.BestBuy.com

²⁵ Prices from www.wireless.att.com, www.apple.com for two 8 GB iPhones (\$199 each) and an 8 GB iPod (\$149)

efficient—to do the same or more with less—a similar movement can make phone bills “efficient.”

Without sacrificing service, consumers have the opportunity to make deep cuts in their calling costs—and spark a sputtering economy—by making simple changes to their phone bills. CUB’s “Right Call Campaign” is committed to alerting consumers of the **\$1.5 billion** economic stimulus plan right at their fingertips.

TABLES

Table I: Combined Consumer Savings

Service	Annual Savings
Local	\$485,248,725.90
Long-distance	\$319,700,572.73
Wireless	\$710,352,714.11
Total:	\$1,515,302,012.74 ²⁶

Table II: Individual Consumer Savings

Service	Avg. Monthly Savings	Avg. Annual Savings
Local (for AT&T areas only)	\$15.60 ²⁷	\$187.15
Long-distance (statewide)	\$6.68 ²⁸	\$80.12
Wireless (statewide)	\$25.69	\$308.28
Total	\$47.97	\$575.55

²⁶ First-year savings include one-time \$20 Pioneer Telephone long-distance credit. Savings after the first year would be \$1,435,501,312.73

²⁷ Actually \$15.595833

²⁸ Actually \$6.676666

METHODOLOGY-LOCAL

Summary:

CUB's policy team used data from the Federal Communications Commission (FCC), the Illinois Commerce Commission (ICC) and CUB's own phone savings tracking data to determine total potential local savings for customers living in AT&T's service region statewide. The figure could be conservative, since comparable data for Verizon and other phone companies are not available.

Components of Formula:

- A. 2,377,882 (AT&T residential lines, FCC ARMIS Paper Report 43-08, the Operating Data Report 2007).
- B. 602,386 (Competitive Local Exchange Carrier, or CLEC, customers in the Chicago area, Table C2 ICC 2007 Telecom Competition Report).
- C. 87 percent (The percent of visitors to CUB's Local Phone Cost-cutter who learned how to cut their bills.)
- D. \$187.15 (Average savings for visitors to CUB's Local Phone Cost-cutter who learned how to cut their bills.)
- E. \$485,248,725.90 (Total Potential Local Savings)

Formula Used:

$$(A + B)*(C)*(D) = E$$

METHODOLOGY-LONG DISTANCE

Summary:

CUB's policy team used available Federal Communications Commission (FCC) data tables to determine total potential long-distance savings for customers across Illinois, comparing average instate and interstate long-distance rates and Pioneer Telephone's "Rate Buster" plan, which comes with an automatic \$20 credit.

Components of Formula for Instate Long-distance Savings:

- A. 30,881,351,289 (Total national instate long-distance calls, taken from FCC Trends In Telephone Service 2008, Table 10.2, converted to instate and interstate using call-distribution data from Table 14.1).

- B. 25 percent (Percentage of national call revenue that comes from residential customers, FCC Trends in Telephone Service 2008, Table 9.3)
- C. $(A) * (B) = 7,720,337,822$ (Share of national instate long-distance calls that are residential.)
- D. 40,917,790,458 (Total national instate residential long-distance minutes, average call duration of 5.3 minutes from FCC Trends in Telephone Service 2008, Table 14.3 multiplied by (C))
- E. 3.5 percent (Illinois' percentage share of total network access revenues, FCC Statistics of Common Carriers 2005/2006, Table 2.11)
- F. 1,442,579,135 (Illinois' share of residential instate long-distance minutes, $(D) * (E)$)
- G. \$.094182749 (Average price per minute, based on the residential share (B) of revenues from FCC Trends in Telephone Service 2008, Table 9.2 divided by (D))
- H. \$.019 (Pioneer Telephone's "Rate Buster" plan's instate per-minute rate)
- I. \$108,457,065.42 (Total potential instate long-distance savings)

Formulas Used:

$$(A) * (B) = C$$

$$(C) * (5.3 \text{ minutes}) = D$$

$$(D) * (E) = F$$

$$(F) * (G - H) = I$$

Components of Formula for Interstate Long-distance Savings:

- A. 42,184,573,711 (Total national interstate long-distance calls, taken from FCC Trends in Telephone Service 2008, Table 10.2, converted to instate and interstate using call-distribution data from Table 14.1).
- B. 25 percent (Percentage of national call revenues that come from residential customers, FCC Trends in Telephone Service 2008, Table 9.3)
- C. $(A) * (B) = 10,546,143,428$ (Share of national interstate long-distance calls that are residential.)
- D. 94,915,290,850 (Total national residential interstate long-distance minutes, average call duration of 9 minutes, FCC Trends in Telephone Service 2008, Table 14.3 multiplied by (C))

- E. 3.5 percent (Illinois' percentage share of total network access service revenues, FCC Statistics of Common Carriers 2005/2006, Table 2.11)
- F. 3,346,290,614 (Illinois' share of residential interstate long-distance minutes)
- G. \$.066280153 (Average price per minute, based on the residential share (B) of revenues from FCC Trends in Telephone Service 2008, Table 9.2/divided by (D))
- H. \$.027 (Pioneer Telephone's "Rate Buster" plan's interstate per-minute rate)
- I. \$131,442,807.31 (Total potential interstate long-distance savings)

Formulas Used:

$$(A)*(B) = C$$

$$(C) *(9 \text{ minutes}) = D$$

$$(D) * (E) = F$$

$$(F) * (G - H) = I$$

Components of Formula for Pioneer Telephone's \$20 Credit:

- A. 3,990,035 (Total "Local Exchange Carrier" customers in Illinois, Table C2 ICC 2007 Telecom Competition Report)
- B. \$20 (One-time Pioneer Telephone credit)
- C. \$79,800,700 (Total potential credit)

Formula Used:

$$(A)*(B) = C$$

NOTE: The sum of instate long-distance savings, interstate long-distance savings, and the one-time Pioneer credit is "Total Potential Long-distance Savings" in the first year. Following years did not include the credit from Pioneer.

METHODOLOGY-WIRELESS

Summary:

CUB's policy team used Illinois Commerce Commission (ICC) and national data combined with the per-year savings figure gathered by the CUB Cellphone Saver to determine total potential wireless savings for customers across Illinois.

Components of Formula:

- A. 3,990,035 (Total "Local Exchange Carrier" customers in Illinois, Table C2 ICC 2007 Telecom Competition Report) .
- B. 75 percent (Percent of households with cell phones, TNS Telecoms, 2006)
- C. 77 percent (Percent of customers who have learned how to save money through the CUB Cellphone Saver)
- D. \$308.28 (Average savings for visitors to CUB Cellphone Saver who learned how to cut their bills.)
- E. \$710,352,714.10 (Total Potential Local Savings)

Formula Used:

$$(A) * (B) * (C) * (D) = E$$