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Income Eligibility for Telephone Lifeline Aid

NOTE TO READERS

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Income Eligibility Guidelines for Telecommunications Lifeline Services should be Set at 150% of Federal Poverty Level

Households living with incomes between 135% and 150% of the Federal Poverty Level lack sufficient resources to obtain affordable telephone service without Lifeline telephone assistance without Lifeline assistance. Some households in this income bracket will go without telephone service altogether, while others will suffer significant deprivation of other household necessities in order to have telephone service. Indeed, households with incomes at 150% of the Federal Poverty Level do not have significantly more total net resources than do households with incomes at 135% of the FPL.

Fisher, Sheehan & Colton, Public Finance and General Economics (FSC) provided these conclusions in August 2004 comments filed with the Federal Communications Commission (FCC) on behalf of the National Association of State Utility Consumer Advocates (NASUCA). The FCC is considering whether to increase the income eligibility guidelines for the federal telecommunications Lifeline program from 135% to 150% of the Federal Poverty Level. FSC recommended that the FCC adopt the higher income eligibility standard.

According to FSC, increasing Lifeline income eligibility guidelines to 150% of the Federal Poverty Level is necessary to ensure that households who have the same incomes, but who live in different states, will have equal access to Lifeline whether or not they participate in the LIHEAP and/or Food Stamp programs.

Finally, FSC concluded that increasing Lifeline income eligibility guidelines from 135% to

150% of the Federal Poverty Level is necessary to avoid missing important vulnerable low-income constituencies. Working poor households and aging households, in particular, are vulnerable households that would be "missed" by an income eligibility guideline of 135% of the Federal Poverty Level but would be eligible for Lifeline assistance with an income eligibility guideline set at 150% of FPL.

Introduction

An assessment of whether households with income at 150% of the Federal Poverty Level have sufficient resources to have affordable telephone service must first define what is meant by "affordable" service. In its May 7, 1997 order on Universal Service, the Federal Communications Commission (FCC) defined the concept of "affordability" to include both an "absolute" component ("to have enough or the means for") and a "relative" component ("to bear the cost of without serious detriment").

According to the FCC, "both the absolute and relative components must be considered in making the affordability determination required under the statute."

For telephone service to be *not* affordable, in other words, a household need not lack telephone service altogether (a failure of the absolute aspect) if to retain service would impose "serious detriment" on the household (the relative aspect). FSC accepted this FCC definition of "affordability" in its comments.

Resources After Expenses

Given this FCC definition, extending Lifeline telephone benefits to households with income at or below 150% of the Federal Poverty Level will assist households that have insufficient resources to obtain affordable telephone service. Using the Family Resource Simulator developed by the National Center for Children in Poverty, at the Columbia University School of Public Health, FSC tracked the resources and expenses for families of various sizes and composition:

- Two-person family, consisting of one adult and one child (age 4);
- Three-person family, consisting of two adults and one child (age 4);
- Three-person family, consisting of one adult and two children (ages 4 and 12).

To test whether geographic location makes a difference in the results, either between states or within a state, data was developed for one large community and one smaller community in each of three states.

The Family Resource Simulator tracks total household resources and expenses as income increases for the household. As total income increases, for example, earned income must become a larger proportion of total household resources since the amount of Food Stamps decreases. A 2-person family, for example, loses eligibility for public health insurance for parents when earned income reaches about $7,000. That household loses eligibility for Food Stamps with earned income of roughly $16,000. For Resources after Expenses (R/A/E) to remain constant, earned income must increase sufficiently to offset this loss of public assistance.

A comparison of total resources with total expenses allowed a computation of Resources After Expenses (R/A/E) for six communities (one large community and one small community in three states).

Out of the 18 resulting scenarios (three family types for two communities in three states), a Lifeline program would deliver affordability benefits to households up to 150% of the Federal Poverty Level in all 18 instances. In all 18 scenarios for which data was presented, households with annual income at or below 150% of the FPL have <u>*negative*</u> resources after taking into account basic household expenses.

The data supports the conclusion that local telephone service is not affordable to households with income at or below 150% of the Federal Poverty Level, FSC said. Even if these households do not go without telephone service altogether, these households have *in*sufficient resources to maintain telephone service without substantial detriment to household finances. For these households to have telephone service, they would be required to give up some basic household necessity.

Net Increases in Resources

Households with income at 150% of the Federal Poverty Level often have minimal additional total net resources as compared to households with income at 135% of the Federal Poverty Level.

Increasing gross household income from 135% to 150% of the Federal Poverty Level generally yields very little increase in net resources to a household. Net resources take into account several factors. For example, using Atlanta as an illustration, as earned income increases from $21,000 to $23,000 for a three-person household (with two parents and one child):

- The amount of public assistance that that household receives will decrease, due to an offsetting $320 loss in the Earned Income Tax Credit in Georgia.
- The amount that household must spend on employment-related expenses increases, including an additional $490 for child care expenses for the Atlanta household.
- The proportion of income devoted to state and federal taxes increases, including an offsetting expense of $270 for the Atlanta household.

This impact is not unique to Georgia. Using a 3-person household as an illustration, the roughly $2,000 gain in income recognized by a household moving from 135% to 150% of the Federal Poverty Level yields a gain in net resources of only a few hundred dollars in both Connecticut and Georgia. Indeed, FSC demonstrated that a 3-person Philadelphia household actually ends up being *worse off* from the perspective of net resources to meet basic household expenses because of its move from 135% to 150% of the Federal Poverty Level. The 3-person Reading (PA) household is neither better nor worse off because of its increased income. For the other four communities, each dollar of increased income yields between $0.20 and $0.35 of total net household resources.

In sum, households with income at 150% of the Federal Poverty Level are at a cusp relative to total household resources. These households are at that transitional point where increasing income generally leads to the loss of public benefits. As a result, the move from income at 135% of the Federal Poverty Level to 150% of the Federal Poverty Level tends to leave households with minimal, if any, additional total household resources.

Categorical Program Eligibility Guidelines

Increasing the Lifeline income eligibility guidelines to 150% of the Federal Poverty Level is necessary to ensure that households with equal incomes, but who live in different states, will have access to Lifeline benefits whether or not they participate in the federal energy assistance (LIHEAP) and/or Food Stamp programs.

The FCC's assumption that setting the income eligibility guideline for Lifeline service equal to 135% of the Federal Poverty Level would reflect the income eligibility guidelines which underlie the public assistance programs serving as the basis for categorical Lifeline eligibility is incomplete. In fact, the income guidelines for programs such as Food Stamps and the Low-Income Home Energy Assistance Program (LIHEAP) allow participation by households with incomes substantially higher than 135% of the Federal Poverty Level. Increasing the income eligibility to 150% of FPL will allow two households with identical incomes to participate in Lifeline whether or not both of the households also participate in Food Stamps and/or LIHEAP (or both).

The FCC relied on the observation that the federal Food Stamp program has an income eligibility guideline of 130% of the Federal Poverty Level as at least partial support for its determination that income eligibility for Lifeline assistance should be set at 135% of FPL.

In fact, the federal Food Stamp program allows many households to participate in the program with incomes substantially higher than 130% of the Federal Poverty Level. The 130% income eligibility standard applies *only* to households that have neither elderly nor disabled persons. There are, however, two significant exceptions to this income eligibility standard:

- First, households with only members that are either elderly or disabled are subject only to the net income test. The gross income of these households is not considered so long as their net income (income after deductions) is at or below 100% of the Federal Poverty Level.

- In addition, elderly persons who cannot buy food and prepare meals separately because of a substantial disability, but who live in a household with an income at or below 165% of Poverty Level, may receive Food Stamp so long as their net income is at or below 100% of the Federal Poverty Level.

Given the use of the Food Stamp program to establish categorical eligibility for the telecommunications Lifeline program, it would be equitable to increase income eligibility to 150% of the Federal Poverty Level to ensure that households in equivalent circumstances would have equal access to Lifeline benefits whether or not they participate in the Food Stamp program.

The Low-Income Home Energy Assistance Program (LIHEAP), another public benefits program participation in which will yield categorical eligibility for the federal telecommunication Lifeline program, has substantial state-to-state variation in its income eligibility standards. As a block grant program, LIHEAP allows each state to set its own income eligibility standard, so long as that income eligibility does not go *below* 110% of the Federal Poverty Level or *above* the higher of either 150% of the Federal Poverty Level or 60% of state median income.

States have used their discretion to establish income eligibility standards that vary widely by jurisdiction. Data setting forth the LIHEAP eligibility standards for each state for the 2004 Program Year (October 1, 2003 through September 30, 2004) shows that:

- 20 states have set their LIHEAP basic grant eligibility standards at exactly 150% of the Federal Poverty Level.

- Five more have set the eligibility standard for their basic grant program at a multiplier of Poverty Level above 150%.

- Eight more have set the eligibility standard for their basic grant program at a multiplier of state median income (SMI) rather than as a multiplier of Federal Poverty Level, six of which have set their standard at the maximum allowable standard (60% of State Median Income).

Virtually all states use the same income standard for their LIHEAP crisis program as they use for their basic grant program.

Given the fact that LIHEAP is a block grant program, there will never be a uniformity of income eligibility standards among the various states. As of Program Year 2004 for LIHEAP, however, 33 of the 51 state jurisdictions (50 states plus D.C.) have LIHEAP income eligibility standards that are higher than the

135% income standard established for the telecommunications Lifeline program.

Fundamental fairness would dictate that households in those states that seek to enter the Lifeline program through an income standard rather than through the categorical eligibility established by participation in LIHEAP should be provided an opportunity to enter the Lifeline by establishing that their income is at or below 150% of the FPL. Setting 150% as the income guideline produces a reasonable accommodation of the different state LIHEAP income eligibility standards.

Vulnerable Populations

Increasing Lifeline income eligibility guidelines to 150% of the Federal Poverty Level is necessary to ensure that Lifeline assistance will not miss important vulnerable low-income constituencies that need Lifeline assistance.

Setting the Lifeline income eligibility guidelines at 135% of the Federal Poverty Level means that Lifeline assistance will not be available to low-income constituencies to whom it is important to deliver affordable telecommunications service. Two populations in particular were considered in the FSC comments:

- The working poor; and
- The aged relying on Social Security as their exclusive source of income.

Working poor: Increasing income eligibility guidelines from 135% to 150% of the Federal Poverty Level will encompass a sizable portion of the working poor. The working poor frequently have incomes that fall between 135% and 150% of the FPL and would thus be ineligible for Lifeline assistance even though these households lack sufficient income to have affordable telephone service.

Consider work by the Urban Institute based on the National Survey of American Families (NSAF). The Urban Institute reports that:

> . . .the average working poor family's income is 39 percent above the federal poverty line. For a single parent with one child, this implies an average income of $15,600; for a two-parent family with two children, it implies an average income of $23,000. Working poor families in California have the lowest average incomes (124 percent of the poverty line) and those in Minnesota have the highest (149 percent of the poverty line).

What this statement says, in other words, is that the average income for a working poor family nationwide places this family at 139% of the Federal Poverty Level, with the state-specific averages for the thirteen NSAF study states ranging from a low of 124% of FPL to a high of 149%.

The state-specific results from the National Survey of America's Families show that, in addition to the average working poor family's income nationwide falling between 135% and 150% of the FPL, the average working family income in nine of the 13 NSAF states falls between 135% and 150% of the FPL. Finally, the data show the same result for the "balance of the nation" (outside of the 13 specific states) (with an average income for the working poor of 144% of FPL).

Aging households: Aging households receiving Social Security benefits as a primary source of income will be another population that will receive substantive benefits by increasing the income eligibility standard for the federal telecommunications Lifeline program from 135% to 150% of the Federal Poverty Level. The Social Security Administration (SSA) publishes a biannual report on the income of the population age 55 or older. The SSA reports the total money income of aged units by Social Security beneficiary status, combined with a number of demographic data.

The SSA data shows that many Social Security recipients will have income between 135% and 150% of the Federal Poverty Level. Since this SSA report presents income for the year 2000, that income is compared to the Federal Poverty Level for the year 2000. In 2000, 135% of the FPL for a one-person household would have been $11,273. In contrast, 150% of the FPL for a one-person household in 2000 would have been $12,525.

As can be seen from the SSA data, the median incomes (meaning that incomes for half of the recipients were greater and incomes for the other half were lower than that presented) of nonmarried Social Security beneficiaries cluster around the 135% to 150% of FPL range. The "total money income" of unmarried women who are Social Security beneficiaries is somewhat lower than that of men. Nonetheless, the SSA data showed that nonmarried Social Security recipients will frequently have total money income that place them precisely within the 135% to 150% of FPL range.

In contrast, the median total money income figures for married couples receiving Social Security benefits are as follows: (1) Age 55 – 61: $33,289; (2) Age 62 – 64: $40,323; and (3) Age 65 or older: $31,298. Unlike the nonmarried Social Security recipient, the Social Security recipients consisting of married couples will not generally benefit from the increase in Lifeline income eligibility from 135% to 150% of FPL.

Additional SSA data further confirmed this conclusion. FSC examined the income ranges most closely approximating the relevant income, given an income of between $11,273 (135% FPL) and $12,575 (150% FPL) for a 1-person household. FSC found that:

- 14.5% of unmarried men aged 62 – 64 who are Social Security recipients fall into this income range, while 11.9% of unmarried women do.
- 7.6% of unmarried men aged 65 or older who are Social Security recipients fall into this income range, while 11.6% of unmarried women do.

Moreover, the numbers are not small in absolute terms. More than 260,000 unmarried men age 65 or older who receive Social Security benefits fall into the income bracket bounded by 135% and 150% of the FPL. More than 1.1 million unmarried women age 65 or older do.

FSC's complete analysis presented to the FCC, including all data tables, can be obtained by sending a request to:

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