



Insight

ACP versus Lifeline: A Comparative Analysis of Broadband Affordability Subsidies

JEFFREY WESTLING | APRIL 3, 2023

Executive Summary

- There are currently two main federal programs, the Affordable Connectivity Program (ACP) and the Universal Service Fund Lifeline program, that provide subsidies to low-income consumers for telecommunications equipment and service, but each takes a different approach in providing that support.
- ACP is set to run out of money next year, and as such, Congress will need to decide whether to extend funding to keep the program operational—a decision further complicated by the fact that alternative programs targeting affordability already exist.
- This insight compares the structure of the two programs, including their program designs, funding mechanisms, and relative potential for fraud; it finds that ACP provides the better structure for delivery of the telecommunications benefit to low-income consumers, and that the program's expiration would leave these consumers with less-optimal alternatives.

Introduction

Despite broadband prices in the United States [declining when adjusted for inflation](#), many Americans still [cannot afford to subscribe to a broadband service](#). According to the [Department of Commerce](#), of the 24 million households that lack a home Internet subscription, approximately 4.3 million lack service due to costs. To assist these households, Congress created the \$14 billion [Affordable Connectivity Program](#) (ACP) in the Infrastructure Investment and Jobs Act of 2021—largely to expand on efforts to modernize existing subsidy programs such as the [Universal Service Fund \(USF\) Lifeline](#) program.

Both of these programs subsidize broadband connectivity, but each takes a different approach to doing so. Lifeline grew out of a program designed to subsidize voice telephony, focuses on the provider requesting reimbursements for connecting eligible participants, and has myriad restrictions tied to the USF programs. On the other hand, the ACP provides a voucher-like subsidy that allows eligible participants to shop around for a provider and service that best suits their needs. The program has a set amount of funds and an increasing participant base, with almost [17 million households subscribed](#) as of March 20, 2023. As of January, the program was expending [in excess of \\$357 million a month](#), though if all eligible households receive the full benefit this could be significantly higher.

[ACP](#) is projected to run out of funds in 2024, so Congress will need to decide whether to extend the program in the next year. To date, ACP has proved largely effective at connecting Americans to broadband. If Congress allows the program to expire, Americans will likely be left with only Lifeline, an outdated and comparatively ineffective program, as an alternative to connect them to broadband. Further, if Lifeline is the only federal option for affordability support, regulators may look to things such as rate controls or other utility-style regulations to address the perceived need for affordability programs, which would negatively affect broadband

deployment and affordability.

This insight compares how each program functions, focusing on the difference in how the programs deliver benefits, their funding mechanisms, and their relative potential for fraud. This insight finds that if Congress wants to provide broadband subsidies, ACP provides the better of the two options for doing so efficiently and effectively, and that allowing the program to expire would leave these consumers with less-optimal alternatives. Moreover, ACP may serve as a future model for addressing low-income broadband affordability, if outdated programs such as Lifeline are retired in the future.

The Programs

Lifeline

Created in 1985, the Lifeline program has provided support for telecommunications services, such as a home telephone connection, for almost 40 years and is supported by fees on consumers' telephone bills. While initially focused on voice telephony, the Federal Communications Commission (FCC) reformed the program in 2016 to allow eligible consumers to receive financial support for broadband, both fixed and wireless. Currently, the program provides a \$9.25 per-month subsidy for broadband support to Americans with [income at or below 135 percent of the federal poverty guidelines](#), or who qualify for entitlement programs including Medicaid and Federal Public Housing Assistance. Previously, providers would verify the eligibility of consumers, leading to [widespread fraud in the program](#) because providers stood to benefit by having more potential subscribers, regardless of whether the customers actually met the program's criteria for benefits. Some of the more unscrupulous providers made fraud a [core process of their business model](#), despite employee objections, leading to major FCC enforcement actions. When the FCC modernized the program in 2016, it created a [national verifier by which participants](#) verify through the neutral Universal Service Administrative Company (USAC) before finding an eligible program. This has largely reduced fraud in the program, though not entirely as carriers can still aid consumers in incorrectly [applying for verification](#).

Functionally, USAC administers the program under direction from the FCC, and broadband providers request funds for offering lower rates to low-income consumers. This allows for some competition among providers, but participants are often limited in the plans they can subscribe to using the program. Further, to be eligible to participate in the program, providers must be designated as an [eligible telecommunications carrier](#) (ETC), which comes with additional burdens and requirements.

Affordable Connectivity Program

As a part of the Infrastructure Investment and Jobs Act, ACP grew out of a [temporary, pandemic-specific benefit](#) and provides \$30 per month to eligible households, as well a single \$100 discount for the purchase of equipment such as laptops, desktop computers, and tablets. ACP has a broader eligibility criterion than the Lifeline program, allowing a household to receive the benefit if at least one member is [at or below 200 percent of the federal poverty guidelines](#), participates in similar support programs, received a federal Pell Grant during the current year, or otherwise meets the eligibility criteria for a participating provider's low-income program. Like the Lifeline program, ACP utilizes the [national verifier](#) to confirm eligibility, allowing participants to proactively self-verify and then take that verification to any participating provider to receive discounted service.

Delivery of the Benefit

The main appeal of ACP is that the benefit flows directly to the consumer, acting much like a voucher model. By utilizing the national verifier, the participant can verify that they are eligible to receive the discounted rate from providers, and the provider need not verify the eligibility of the consumer directly. While Lifeline has largely implemented similar structures in recent reforms to the program, eligible offerings are still relatively limited, largely due to the ETC requirements leading to a lack of provider interest in participating in the program, as well as the relatively small amount of money provided to consumers. Unlike Lifeline, ACP has widespread participation from broadband providers, and the program is largely [technology-neutral](#), meaning more providers can offer different services eligible for support.

This structure also benefits consumers, as participants can shop around for the plan that best suits their needs. In addition, consumer choice also drives competition from broadband providers that now have a larger potential consumer base. With almost 17 million households using the program to help support their broadband purchases, providers have a larger incentive to continue to [build-out and upgrade their networks](#), improving service for both those utilizing the ACP benefit and those who are not.

Stability of Funding

Lifeline and ACP differ most significantly in their relative funding mechanism. As a part of the USF, Lifeline relies on a [universal service fee](#) that all subscribers to utility telephony services must pay. When the USF focused primarily on voice service, the relative burdens were smaller due to a wide contribution base and limited costs for connecting. As subscribers to voice telephony decrease and costs of the program increase to cover broadband expansion and adoption, this contribution mechanism has become widely unbalanced and burdensome to voice subscribers.

Congress directly appropriates funds for ACP. While this means Congress must revisit the program to ensure funding doesn't expire, it also more fairly distributes the burdens of the program to a wider tax base than the current Lifeline support model. While some have called to reform USF's contribution mechanism by including a fee on broadband services, doing so would simply raise costs for broadband services by charging a flat rate among all subscribers. If Congress wants to improve broadband adoption, raising costs on those services runs directly counter to that goal. By issuing a subsidy through general appropriations, the burden of the program can be more fairly distributed among the tax base and lower costs for those who currently cannot afford to subscribe to broadband services.

Potential for Fraud

As with any subsidy program, poor implementation and management could lead to waste, fraud, and abuse. Lifeline, historically, has been rife with it. Prior to the implementation of the national verifier, providers would verify the eligibility of participants themselves. For many broadband providers, these administrative burdens were a bug of the program, adding costs and disincentivizing participation. For bad actors, it was a feature that allowed them to [game the system, falsely sign up customers, and steal millions from the program](#). While the national verifier has helped reduce these concerns, the problems still exist as consumers can still provide inaccurate information to game the verifier, sometimes with provider assistance. Most notably, [1,000 households in Oklahoma](#) used the identity of a single 4-year-old to obtain free or discounted service through ACP, which may have resulted in \$1.4 million in fraudulent benefit spending.

By ensuring Congress maintains an active role in overseeing ACP through appropriations, the FCC must remain increasingly vigilant and responsive to congressional concerns. To the extent that waste, fraud, and abuse exist

in the program, Congress may impose additional safeguards or limit the budget until the problems cease to exist. Paired with the national verifier to limit potential fraud, the direct oversight function of Congress can help ensure the program meets its goals with limited waste.

Conclusion

ACP has proved largely effective at connecting Americans to broadband. Its voucher-like nature and sustainable funding mechanism, combined with Congress' direct oversight of the program, ensure that it can assist low-income Americans in acquiring the broadband plan that best fits their needs without significant risk of waste, fraud and abuse. By allowing consumers to shop around, the program also incentivizes future deployment and competition among broadband providers.

If Congress wants to continue to subsidize broadband connectivity, ACP may be its best model for a single subsidy program in the future. To the extent that legislators have concerns with the size of the benefit, the eligibility criteria, fraud and waste, or some other aspect of the program, these issues can be reviewed and reformed. But by allowing the program to expire, regulators will likely be forced to rely on outdated programs such as Lifeline to fill affordability gaps, and the improvements of ACP over these outdated subsidy models will be lost.