



# **Making the Right Call:** **A Consumers' Guide to** **a New Cell Phone Plan**

Winter 2012

**CALPIRG**  
Education Fund

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**Jonathan Fox**

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The author bears responsibility for any factual errors. The recommendations are those of the CALPIRG Education Fund. The views expressed in this guide are those of the author and do not necessarily reflect those of the funders or those who provided review.

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# Summary

Wireless phone service has become a visible part of everyday life. According to a trade industry report, there are 327 million cell phones in use across the United States<sup>1</sup>, and for nearly 30% of households it is their only phone service. Cell phones are moving beyond the simple tasks of providing voice and text communication, taking an increasingly central role in our lives. Americans use their phones to access the Internet, connect with friends and family, navigate, bank, take pictures and much more. Cell phones play a particularly central role for low-income consumers who access the World Wide Web primarily through wireless devices.

Buying cell phones and wireless service is a major investment for many Californians, costing an average of nearly \$900 per year.<sup>2</sup> It also requires choosing from a bewildering array of devices, service packages and contracting arrangements. Even consumers who do their homework are often surprised when they receive their wireless bills – 36% of cell phone customers surveyed by CALPIRG Education Fund said that their monthly cell phone bills were higher than they expected, by an average of \$24 per month. A similar 2010 study by the Federal Communications Commission found that 23% of wireless device users had experienced unexpected charges of \$100 or more.<sup>3</sup>

This cell phone shopper's guide—based on in-store research and consumer surveys by CALPIRG Education Fund researchers—is designed to help consumers navigate the twists and turns of today's cell phone market.

## Recommendations for consumers

Consumers who want to get the best deal on wireless phones and services should take the following seven steps:

1. **Know your needs.** Roughly two-thirds of Americans pay for cell phone services they don't use. Thinking about *what* services you use, and *how* much, in advance will help avoid over-paying for products you don't need or use—potentially saving hundreds of dollars.
2. **Shop around.** Consumers can save hundreds of dollars a year by comparison shopping – particularly for wireless devices. “Free” phones offered with two-year contracts can sometimes prove to be more expensive over time than purchasing a phone and wireless service separately. The cost of devices can vary greatly whether you buy in a brand store, at a 3<sup>rd</sup> party provider (such as Best Buy), or online. It is often cheapest to look at a phone in a store and then purchase it online.
3. **Consider shifting from pay-per-use to packages for text or data.** For example, \$10 with Verizon can buy you 50 text messages per month with a pay-per-use plan. However, you can buy a \$10 monthly text

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1 As of June 2011, according to CTIA - The Wireless Association. Accessed December 2011 at: [https://www.ctia.org/consumer\\_info/index.cfm/AID/10323](https://www.ctia.org/consumer_info/index.cfm/AID/10323)

2 According to JD Power the average monthly phone bill in 2011 was \$71 per month. See J.D. Power & Ass., *The Right Blend of Design and Technology is Critical to Creating an Exceptional User Experience with Smartphones and Traditional Mobile Devices*, 8 September 2011. (Accessed online October 2011)

3 John Horrigan & Ellen Satterwhite, *Americans' perspectives on early termination fees and bill shock*, 25 May 2010. Accessed online November 2011 at: [http://hraunfoss.fcc.gov/edocs\\_public/attachmatch/DOC-298414A1.pdf](http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-298414A1.pdf)

package in advance with Verizon and receive 1,000 text messages, paying 1¢ per message instead of 20¢.

- 4. Compare pre-paid and post-paid services.** Compare the plan you want with a pre-paid plan versus a post-paid plan. If you are a light cell phone user, getting a pre-paid device can save you nearly \$35 each month without the hassle of a two-year contract (a savings of \$820 over two years!)

- 5. Ask for a discount.** Many cell phone companies provide affiliate discounts for students, members of credit unions, and to certain employers (universities, large corporations, public employees, etc.). For example, Sprint offers a 24% monthly discount for eligible students, while Verizon offers a 15% discount to all military veterans, a saving of over \$20 per month. In addition, CALPIRG Education Fund research found that one in 10 stores waived the \$35 activation fee upon request.

- 6. Find true costs.** CALPIRG Education Fund research found that consumers can reasonably expect to pay up to \$20 per month on top of advertised prices.

Advertised prices for cell phones do not include federal and state taxes, service fees, and other overage charges. A la carte pricing for wireless services can also lead to unexpectedly high bills. This complexity can make it difficult for consumers to make “apples to apples” comparisons among providers and plans. Consumers should ask which taxes and fees apply to their contract, and what their monthly base bill will look like prior to entering into a contract.

- 7. Avoid “bill shock.”** CALPIRG Education Fund found that 40% of those consumers surveyed incurred overcharges. Track your cell phone use to insure that you do not go pass your pre-paid limits and incur overcharges. All wireless providers provide tools, both online and on your phone, to track your use.

Consumers should call upon wireless companies to provide full-price disclosure to consumers signing up for new service; supply short, clear summaries of contracts; extend the time period for returns to 60 days; and provide translated versions of contracts for non-English speaking customers.



# Consumers Can Save Hundreds of Dollars by Shopping Smart

Shopping for a cell phone or a wireless service provider can be a time-consuming and frustrating process. But the investment of time and effort can yield big rewards, totaling hundreds of dollars in savings. Consider the examples of the following four hypothetical consumers – all with very different needs – in their search for the best cell phone and wireless plan. In

each case, large savings are possible if consumers know their needs, take the time to shop around, and remain aware of potential hidden costs. (Pricing is based on CALPIRG Education Fund research of online offers in December 2011. Prices for cell phones and wireless services change frequently, so consumers are advised to check the latest pricing.)

Photo by onesebebeforethedub (CC).



## Florence Smith: Saves \$840

**User Profile:** Florence primarily uses her land line when at home, and uses her cell phone when she is out. Florence typically has short cell phone conversations with friends or family, usually to coordinate meetings and get updates. She also sends and receives text messages, but prefers checking email and the Internet online at home.

After assessing her needs, Florence decided to forgo the more expensive smart phone, preferring a smaller and cheaper basic phone better suited for short calls and texts. Florence wanted a basic phone with a set monthly fee for a text and talk package. Conscious of her retirement and monthly budget, Florence wanted control over her cell phone bill, preferably without being locked into a two-year contract.

**Cell phone package:** Florence went to AT&T and looked at their offers for basic phone plans, both with a contract and without. With a post-paid contract Florence was offered an *AT&T F160* basic handset, free after a \$30 mail-in rebate; a 450-minute talk package for \$39.99; and an unlimited text package for \$20 per month. With a two-year commitment, Florence would pay **\$59.99 per month**, before taxes and fees. Alternately, with a pre-paid non-contract AT&T “Go Phone” plan, Florence was offered the same *AT&T F160* basic handset for \$15.99 and a 250-minute talk package with unlimited text messaging for **\$25 per month**.

**Savings:** Florence decided to sign up for the pre-paid “Go Phone” plan, saving at least \$34.99 each month. **Florence will save at least \$840 over the life of a two year contract**, simply by choosing AT&T’s pre-paid plan over its post-paid plan.



## Bob Smith: Saves \$960

**User profile:** Bob is interested in saving money and staying in touch with his wife and children. Bob prefers texting with his family members, mostly to coordinate after-school pick-ups and other errands. Bob is looking for a family plan package that includes four phone lines, four basic phone devices, talk minutes outside the service providers' network, and unlimited text for each line. Bob would like to receive a single monthly bill for

all four lines, in order to simplify his bill payments and keep better track of the family expenditures each month.

**Cell phone package:** Bob looked at two post-paid family plan options with T-Mobile and with Sprint. As part of Sprint's "Everything Messaging Plan," they offered Bob 1,500 minutes of talk time to share among the four lines combined with unlimited messaging for all phone lines and four free basic *Sanyo Vero* phones. The plan cost \$99.99 per month with a \$9.99 monthly fee for the third and fourth line. In total, Bob can expect to pay (before taxes and fees) **\$119.98 per month** with Sprint.

T-Mobile offered Bob their "Classic Unlimited Talk + Text" plan for \$99.98 per month, inclusive of unlimited text and calling for all lines. This offer also included a \$30 monthly charge for the third and fourth line. After signing up for a two-year contract, Bob would receive four free *Samsung Gravity* phones for his family. In total, Bob can expect to pay with T-Mobile **\$159.98 per month** (before taxes and fees).

**Savings:** Bob decided to sign up with Sprint's family plan, **saving \$40 each month and \$960 over the term of the two-year contract.**

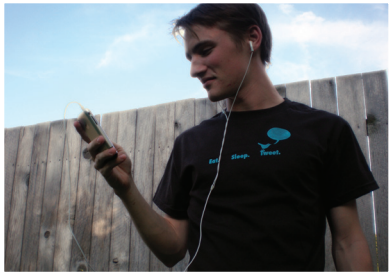


## Jane Doe: Saves \$720

**User profile:** Jane owns a small business and is often on the move, which means she is a heavy user of talk minutes, text, and data. Jane uses many Apple products, and wants an iPhone to access the Internet, synchronize her work files and contacts with her phone, promote her business through social networks, and email with her clients and employees.

**Cell phone package:** Jane went online and looked at two post-paid offers with Verizon and with Sprint. With a two-year contract, Verizon offered an *iPhone 4S* (32GB) for \$299.99 (40% of full retail price); an unlimited text and voice package for \$89.99 per month; as well as a wireless data and hotspot package - which allows Jane to connect other devices to the Internet via her iPhone - up to 4GB for \$50 per month. In total Jane can expect to pay **Verizon at least \$139.99** each month (before taxes and fees). Sprint's offer included an *iPhone 4S* (32GB) for \$299.99 with an unlimited text, voice, and data package for \$99.99 per month. In addition to the mandatory \$10 premium data fee for smart phones, Jane can expect to pay **Sprint at least \$109.99** per month (before taxes and fees).

**Savings:** Jane decided to sign up with Sprint's iPhone offer, **saving \$30 each month and \$720 over the term of the two year contract.**



## Joey Smith: Saves \$420

**User profile:** Joey is sophomore at college, and uses his phone mostly to stay in touch with friends, take photos, and update social network sites. Joey used to be on his parents family plan, but decided to get his own pre-paid, non-contract line in order to get a smart phone and have more control over his monthly bill. Joey is looking for a set monthly fee for a package that includes unlimited talk, text and data. Joey is willing to pay

a higher price for the phone up front with savings from the cheaper monthly plan covering the difference over time. With a flat monthly rate, Joey does not have to worry about “bill shock” at the end of the month, helping him stay on budget during college.

**Cell phone package:** Joey looked at no-contract pre-paid offers with T-Mobile and with Boost Mobile. T-Mobile offered an *LG Optimus T* Android smart phone for \$179.99 with an unlimited talk, text, and data plan (with the first 2GB at up to 4G speeds) for \$60. Boost Mobile offered Joey a *Samsung Galaxy Prevail* Android smart phone for \$149.99 together with an unlimited talk, text, and data plan for \$55. Boost’s monthly unlimited plans also include a “Shrinkage” promotion, which reduces the monthly payment to \$40 over an 18-month period of successful payments.

**Savings:** Joey compared both offers and found that the **T-Mobile offer would cost \$1,619.99 while the Boost Mobile offer would only cost \$1,199.99**, \$420 less over a two-year period.



# Shopping for a Cell Phone: A Guide for Consumers

How can real-life consumers achieve the savings secured by the hypothetical consumers in the examples above? The keys are taking the time to determine your needs, shopping around, and incorporating – as much as possible – the hidden costs of cell phones and wireless plans into your shopping decisions.

The following section walks through the steps of shopping for a cell phone and wireless service, drawing on CALPIRG Education Fund's in-store research and consumer survey to provide practical tips.

## Knowing Your Needs

No two cell phone customers are alike, and neither are cell phone plans. Not only are there a wide variety of phones devices available in the market, wireless providers offer talk, text, and data packages in different sizes and units.

The first step in navigating the thicket of competing plans and prices is to know your needs. Research has found that 66% of American wireless customers overpay for services they do not use.<sup>4</sup> Thinking about *what* services you use, and *how* much, in advance will help avoid over-paying for products you don't need or use. Before you commit to a purchase, look back at previous cell phone bills to assess your cell phone use.

Before heading to the store or visiting a provider's website, consumers should ask themselves the following key questions:

- What type of phone do I *need*? What type of phone do I *want*? The answers to these questions are often different. Understanding the difference can help consumers understand the cost of upgrading to devices that may be luxuries rather than necessities.
- How many talk minutes do I normally use each month?
- How often do I send and receive text messages?
- What size data plan do I need to cover my data use?

## Choosing a Talk and Text Plan

On average, wireless consumers use 450 talk minutes per month while sending or receiving an average of 500 text messages a month.<sup>5</sup>

AT&T, Verizon, and Sprint all offer post-paid talk packages in increments of 450, 900, and unlimited minutes at comparable rates.<sup>6</sup> While

4 J.D. Roth, Ways to Save Money on Your Cell-Phone Bill, March 22, 2011. (Accessed November 2011)

5 J.D. Power & Associates, *Overall Wireless Network Problem Rates Differ Considerably Based on Type of Usage Activity*, 25 August, 2011. (Accessed online October 2011)

6 Comparison of offer as of December 2011.

Sprint and T-Mobile bundle their voice and text plans together, Verizon offers separate monthly text packages of either 1,000 or unlimited text messages. AT&T offers only pay-as-go or unlimited text message packages.

Depending on personal needs and cell phone habits, it is often cheaper to sign up for voice or text packages in advance. For example, \$10 with Verizon can buy you 50 text messages per month with a pay-per-use plan. Alternately, you can buy a \$10 monthly text package in advance with Verizon and receive 1,000 text messages, paying 1¢ per message instead 20¢.

## Choosing a Data Plan

The rapid penetration of smart phones in the market presents new challenges to consumers shopping for wireless devices and service plans. A recent study released by the data-tracking firm Nielsen found that 43% of all U.S. cell phone users own a smart phone. Among adults aged 18-24 and 35-44, smart phone penetration rates were the highest, with 62% owning smart phones.<sup>7</sup> Parallel to the surge in smart phone ownership, wireless providers have seen an increase in data use by wireless customers. This can be partly explained by the increase in web-friendly wireless operating systems like Apple's *iOS* and Google's *Android*. It is not surprising then that consumers with iPhones and Android smart phones use more than the average amount of data.<sup>8</sup>

With the notable exception of Sprint, all major cell phone service providers have stopped offering unlimited data plans and moved to tiered data plans for smart phones.<sup>9</sup> AT&T and Verizon offer data plans in addition to their text and voice plans (mandatory for smart phones),

while Sprint and T-Mobile bundle their data packages together with text and voice plans.<sup>10</sup>

Consumers now need to assess their monthly data use and choose a 2, 5, or 10 gigabyte (GB) monthly data plan. If they exceed their monthly allotment, consumers will incur overcharges. This presents a unique problem for consumers – how can they figure out how large a data plan they will need?

The first question consumers should ask is whether they will primarily access the Internet via a secure WiFi connection or the provider's cellular network. Smart phone users can save money by using a secure WiFi connection, rather than their providers' data service, as much as possible. Data used while on a WiFi network does not count towards a consumers' allocated data use.

Second, consumers should consider how much data they are likely to use on the cellular network. Most wireless service providers provide online data-use calculators that can be useful. Before you get started, CALPIRG put together estimates of what typical data plans allow (see next page).

For consumers unsure of how much data they use on their cell phones, here are some general guidelines of the most commonly offered packages:

### Less than 200 megabytes per month.

For smart phones, any plan with less than 200MB per month should be avoided, as it would be very hard to stay under that limit. Email, automatic software updates and other data consumption in the background can easily require 75MB per month. Consumers who go over their monthly limit could end up paying \$10 or more in overuse fees.

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7 Nielsen, *Generation App: 62% of Mobile Users 25-34 own Smart phones*, November 2011 (Accessed online November 2011)

8 Nielsen, *Average U.S. Smartphone Data Usage Up 89% as Cost per MB Goes Down 46%*, June 2011 (Accessed online October 2011)

9 T-Mobile adopted a unique model. Although they still provide "unlimited data" in the sense that they do not charge customers for over use, they do throttle (i.e. slow down) customers after they pass their pre-allotted monthly limit.

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10 A review of online offers at AT&T, Verizon, Sprint and T-Mobile November 2011.

Monthly Activity	200MB	2GB	4GB
<b>Sending or receiving single text email</b>	1,000 emails	10,000 emails	20,000 emails
<b>Sending or receiving single text email with attached document</b>	150 emails	1,500 emails	3,000 emails
<b>Surfing the web</b>	400 pages	4,000 pages	8,000 pages
<b>Downloading or uploading a photo</b>	50 uploads	500 uploads	1,000 uploads
<b>Streaming video</b>	20 minutes	200 minutes	400 minutes

\* Usage examples are estimates. Individual results will vary based on customer's Internet usage patterns among other factors.<sup>11</sup>

### 2 gigabytes per month.

This is currently the standard plan, which wireless service providers say meets the needs of over 90% of smart phone users. Indeed for most consumers using their smart phones to access email, surf the web, update Face Book and stream the occasional video, 2GB of data per month will do. Validas, a company that reviews bills to match customers with best plan options, found after analyzing 11,000 Verizon Wireless bills that 96% of Verizon smart phone users consumed less than the 2GB minimum tier each month, with less than 1% of the Verizon wireless users requiring more than 5GB of data.<sup>12</sup>

### 5 gigabytes and above per month.

These are the highest tier packages offered by wireless providers, designed for the most demanding data users. These plans are appropriate for consumers who spend a lot of time online using their phones, stream online music, videoconference often, watch streaming movies, or "tethering" their phones to other devices - essentially using their cell phones as high speed modems. While a 5GB plan is beyond the needs of most consumers today, future trends point to increasing wireless data consumption.

According to Nielsen's study of over 65,000 smart phone customers, average monthly data consumption in the first quarter of 2011 was up 89% compared to the year before.<sup>13</sup>

## Shopping Around

After determining likely talk, text and data needs, the next step for consumers is to shop around for the best prices on the devices and services that meet their needs. Usually, when consumers think about "shopping around," they think about comparing similar offers among various providers. This kind of "shopping around" is important—as demonstrated by the examples of hypothetical consumers above—but shopping for a cell phone is unlike shopping for other products. To maximize savings, consumers need to compare both across wireless providers and within each provider's offerings.

## Pre-Paid or Post-Paid Plan? With or Without Contract?

One of the biggest choices consumers make when signing up for cell phone service is whether to choose a pre-paid or a post-paid ("bill me later") plan. For many cost conscious

11 Source: AT&T, accessed online at <http://www.att.com/shop/wireless/plans/data-plans.jsp> November 2011.

12 Roy Furchgott, *Verizon to Drop Its Unlimited Mobile-Data Plan*, New York Times, 5 July 2011.

13 Smart phone data use grew 89%, from 230 megabytes (MB) in the first quarter of 2010 to 435 MB in the first quarter of 2011. Nielsen, *Average U.S. Smartphone Data Usage Up 89% as Cost per MB Goes Down 46%*, June 2011 (Accessed online October 2011).

consumers, pre-paid plans can not only help them better control their wireless usage, but also save money overall.

**Post-Paid Plans:** The most common payment plan is the post-paid plan, in which the customer receives a monthly bill, detailing recurring monthly charges (for service plans or device payments), overcharges for exceeding limits, third party charges for services (games, music downloads, etc.), additional fees and taxes. For new customers, or old ones receiving new phones, post-paid plans usually require signing onto a two-year contract with the wireless provider (although one-year contracts can often be negotiated as well).

Post-paid plans require a credit check, and pricing offers can vary according to the results. If the customer decides to leave the wireless provider before the end of the contract term, they will be charged an “Early Termination Fee” (ETF), which can be as high as \$350. Post-paid plans are provided by Verizon, AT&T, Sprint and T-Mobile.

**Pre-Paid Plans:** This is a newer pricing model to enter the U.S. market, in which wireless providers offer wireless phones and services with no long-term contracts and no credit check. With a pre-paid account the consumer pays a set fee for a monthly, daily, or pay-as-you-go package of their choice, inclusive of all taxes and fees. With a pre-paid plan, consumers can better plan their monthly wireless expenses and avoid surprises at the end of the billing cycle. Customers are not required to sign long-term contracts and can leave their provider at any time without incurring an ETF charge.

While pre-paid packages are cheaper than their post-paid equivalents, providers usually require new customers to purchase phones at full market price, thus increasing the up-front costs of a new phone. Most wireless service providers allow existing customers who already have a phone to switch to these programs once their initial two-year contract expires. Finally, packages purchased

on a pre-paid plan expire after a pre-set time, and cannot be rolled over. Pre-paid programs are provided by Verizon, Go Phone (AT&T), Boost Mobile (Sprint), T-Mobile, and Metro PCS.

Market research has shown that pre-paid customers spend on average \$32 less per month when compared with an average monthly service cost of \$92 for customers with post-paid contracts.<sup>14</sup> Customers on pre-paid plans also tend to use fewer talk minutes per month (326 on average) compared to post-paid customers who average 489 talk minutes per month.<sup>15</sup>

So, what are the advantages of a post-paid plan? For most consumers, the main reason to choose a post-paid plan with a long-term contract is that wireless providers offer free and highly discounted phones for this plan type. It is not surprising then that a recent study found that 42% of cell phone owners reported having received a free mobile phone after signing up to a contract with a wireless service provider.<sup>16</sup>

However, CALPIRG Education Fund research found that pre-paid plans are significantly cheaper than post-paid plans, even when the value of the “free” phone is included. For example, T-Mobile offers a monthly *Classic Unlimited Bundle with Data* package with unlimited minutes, unlimited text, and up to 2GB of high-speed data on a post-paid plan for \$79.99. Yet the same services are available on T-Mobile’s *Monthly 4G* pre-paid package for nearly \$30 less, set at \$50 per month.<sup>17</sup> Over the life of a two-year contract, that is a savings of \$720, more than enough

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14 J.D. Power & Ass., *Prevalence of Non-Contract Monthly Service Plans Continues to Grow, as Product Offerings Become More Competitive with Those of Traditional Contract Service Plans*, 31 March, 2011. (Accessed online October 2011)

15 J.D. Power & Ass., *Prevalence of Non-Contract Monthly Service Plans Continues to Grow, as Product Offerings Become More Competitive with Those of Traditional Contract Service Plans*, 31 March, 2011. (Accessed online October 2011)

16 J.D. Power & Ass., *The Right Blend of Design and Technology is Critical to Creating an Exceptional User Experience with Smartphones and Traditional Mobile Devices*, 8 September, 2011. (Accessed online October 2011)

17 Based on online price survey at [www.t-mobile.com](http://www.t-mobile.com), November 2011.



to cover the initial cost of purchasing a new phone at full price.

In many cases, therefore, consumers will pay more for a post-paid plan than for a pre-paid plan in which they purchase the device separately. For some consumers, however, post-paid plans still make sense. These consumers may be unable or unwilling to pay the full upfront market price of a cell phone, or may place a high value on locking in service pricing and terms for a long period of time. Consumers with post-paid plans are guaranteed a set price for their packages throughout the term of the two-year contract, and sometimes even beyond with a “grandfather” clause. For example, consumers who signed up for an unlimited data plan in early 2011 continued to enjoy this package even when the plan was discontinued by most cell phone service providers later that year.

In reality, however, most consumers prefer maintaining the freedom to switch providers over the price certainty of long-term contracts. CALPIRG’s survey of wireless customers found that 75% of respondents felt that a two-year contract was too long a commitment.

As with all aspects of buying a cell phone and wireless service, every consumer has his or her unique needs. But many consumers can benefit by comparing the costs of pre-paid and post-paid plans before signing on the dotted line for a long-term contract.

## Buying In-Store, Online or from a Third Party?

Another important way that consumers can benefit from shopping around is by comparing prices for wireless devices and services between a provider’s retail stores and online stores, and between prices offered for devices by wireless providers and third-party retailers.

CALPIRG Education Fund’s research discovered several opportunities for consumers to

save money by comparing in-store, online and third-party offers. (Note that the survey was conducted in December 2011 and that the specific offers described may no longer be valid.)

- AT&T and T-Mobile offered cheaper phones, and a wider choice of phones, online at brand websites than in the retail stores visited.
- Sprint offered additional low-end price plan options at its website that were not advertised in stores.
- Metro PCS’s online store did not charge the \$50 activation fee often charged at brand stores.
- Third-party stores such as Wal-Mart or Best Buy often had cheaper high-end AT&T, T-Mobile, Metro PCS and Boost Mobile devices on offer than were available in brand stores. It should be noted that online prices were not usually available in stores.

For many consumers, the smartest path when shopping for cell phones is to view and “test drive” phones in retail stores, and then purchase the phone either online at a wireless provider’s website or from a third-party retailer.

## Asking for a Better Deal

Often, consumers can pay less for a cell phone or wireless service simply by asking for a discount. Wireless providers offer a variety of discounts to lure customers and sometimes have the ability to waive fees or provide special unadvertised deals on request.

**Discounts:** Consumers should always inquire about the availability of discounts, which can often result in significant monthly savings. AT&T, for example, offers a discounted “Senior Plan” available to customers 65 and older and discounts to eligible businesses, govern-



ment agencies, and educational institutions. To find out if your company offers a discount on your AT&T Service, refer to: AT&T Premier Business Center (<http://www.wireless.att.com/businesscenter>). T-Mobile offers a 10-18% discount for military veterans, certain employers and universities. Sprint offers a discount for military veterans, certain employers, and universities up to 24% of monthly bill. Verizon also offers a 15% discount for military veterans, certain employers, and universities.

**Waiver of Activation Fees:** CALPIRG Education Fund researchers found that one in 10 stores surveyed were willing to waive the activation fee upon request. T-Mobile brand stores and 3<sup>rd</sup> party reseller stores, for example, were likely to waive the \$35 activation fee when asked.

**Financing Options:** Some providers offer unadvertised financing options for consumers who purchase devices up-front. For example, consumers who sign up for T-Mobile's *Value Plan* and choose to pay the full price of a phone at their brand stores should ask about interest-free payment plans spreading the higher up-front payment over time. While this option exists, it is rarely advertised, and is worth asking salesperson about.

**Matching Best Offer:** Consumers should ask providers to match or beat the best offer—either from a competitor or the company's own on-line or in-store offerings. CALPIRG Education Fund found that AT&T phone sales representatives were able to match other official AT&T offers (either online or in stores). However, T-Mobile's phone sales representatives were not able to match T-Mobile online offers.

## Avoiding “Bill Shock”

Even consumers who do their homework while shopping for a cell phone and wireless services often experience “bill shock” when their wireless service turns out to cost much more than they had originally anticipated.

CALPIRG Education Fund research found that consumers can reasonably expect to pay up to \$20 per month on top of advertised prices in taxes and fees.

The wireless industry must take further steps to make it easier for consumers to understand the true costs of owning a cell phone.

## Early Termination Fees

One of the first questions consumers thinking about switching cell phone providers must answer is whether they are subject to an “Early Termination Fee” (ETF) for terminating their service prior to the end of their contract term.

Consumers who get “cold feet” soon after purchasing a phone may be able to avoid a costly ETF. Wireless service providers generally provide a 30-day grace period to return new phones, with the exception of Verizon who provides a trial period of only 14 days, without having to pay an ETF.

Consumers can also void their contracts without paying an ETF if their wireless service providers make a “materially adverse” change to the terms of contract. That is, if wireless providers raise a fee, impose a charge, or change a rule that applies to the consumers' contracts, they have to let consumers out of their contracts without an ETF.

On the other hand, some consumers can incur an ETF even if they stay with their existing cell phone provider. An ETF charge can be applied if you stay with your service provider but change service options that are required by contract (such as dropping data plans on smart phones).

In some cases – particularly late in a contract term – consumers may wish to voluntarily incur an ETF if they are able to get a better deal elsewhere. Wireless providers assess ETFs on a sliding scale, with termination near the end of a contract costing less than termination earlier in the term. As a

	ETF rate	ETF discount rate	Trial period length
<b>Verizon</b>	Up to \$350	<b>Smart phones:</b> Canceled between 15-30 days of purchase: ETF = \$350 Canceled after 1 month: number of months remaining on Term x \$10 <b>Basic Phones:</b> Canceled between 15-30 days of purchase: ETF = \$175 Canceled after 1 month: number of months remaining on Term x \$5	14 days
<b>Sprint</b>	Up to \$350	<b>Smart phones:</b> Number of months remaining on Term x \$20 = up to \$350 (minimum \$100) <b>Basic Phones:</b> Number of months remaining on Term x \$10 = up to \$200 (minimum \$50)	30 days
<b>AT&amp;T</b>	Up to \$325	Number of months remaining on Term x \$10	30 days
<b>T-Mobile</b>	Up to \$200	180+ days left on contract: \$200 91-180 days left on contract: \$100 31-91 days left on contract: \$50 Last 30 days of contract: The lesser of \$50 or your last monthly bill	30 days

\* Based on two year contract length.

result, consumers should consider beginning the process of shopping for a new cell phone *before* their contracts end and carefully weigh the pros and cons of the various alternatives.

The above table summarizes the ETF charges assessed by major wireless providers as of December 2011.

## Mandatory Data Packages

Purchasing a smart phone often requires the purchase of a mandatory data package, which adds costs, sometimes in excess of advertised prices.

Sprint provides an illustrative example of incomplete pricing. Sprint's post-paid unlimited data plans all require an additional \$10 per month fee for smart phones. Thus an individual *Everything Data Plan* advertised as "starting at \$69.99" actually starts at \$79.99 per month for all smart phone users.<sup>18</sup> Similarly, AT&T requires all smart phones to include data plan starting at an additional \$15 per month.<sup>19</sup>

<sup>18</sup> Based on Sprint 2011 pricing brochure available at all Sprint stores.

<sup>19</sup> Based on online price survey at [www.wireless.att.com](http://www.wireless.att.com). (Accessed November 2011)

Consumers should investigate and consider these additional charges when they compare offers from various providers.

## Keeping Track of Usage

One of the most common sources of “bill shock” occurs when consumers unwillingly or unknowingly overshoot their allowed number of minutes or volume of data downloads. Thanks to an October 2011 agreement between the F.C.C and the Cellular Telecommunications Industry Association (CTIA)—the trade group representing the wireless industry’s largest service providers—consumers will soon find it easier to prevent charges for overuse.

Under the agreement, wireless carriers will alert consumers when they approach and then exceed their limits on voice, text, or data. Consumers will also be alerted by their wireless providers when their phones link to a cellular system in a foreign country. While wireless companies can choose different methods to deliver the alerts (by text or voice), alerts must be free and automatic. Under the agreement, wireless service providers were given 18 months to fully implement the alert system. Wireless service providers also agreed to publicize tools for consumers to monitor their own usage.<sup>20</sup>

While wireless carriers roll out the alert system, consumers should closely monitor their monthly usage to ensure they don’t end up paying more than they expect at the end of the month. Consumers can check up on their monthly use through their carrier’s web site, through a free text message, or free phone call.

### Verizon:

Consumers can get a free update from their phone by sending the following blank text message to #DATA (#3282). Consumers will receive a free text outlining their total data usage for the

current billing cycle. To check online, consumers can log into [myaccount.verizonwireless.com](http://myaccount.verizonwireless.com), then go to the my data usage section.

### AT&T:

Consumers can get a free update from their phone by sending the following text \*DATA# (\*3282#) for data use and \*MIN# (\*646#) for remaining talk minutes. Consumers will receive a text detailing their usage. Consumers can also follow their wireless usage online, by logging in at AT&T Wireless (<http://wireless.att.com>), going to *Bill & Payments*, clicking the “Create a Billing Report” link under Billing Reports, and then choosing *Data Usage Trend*.

### Sprint:

Consumers can get a free update by dialing “\*4” on their phone, and then selecting “4” again to hear the extended menu, and then choosing the option to get all your usage read to you. To get updates online, log into My Sprint (<http://sprint.com/mysprint>), go to the “My Account” section, and then look to see if your smart phone type is listed. If it is not, consumers will have to manually enter their phone’s serial number. Once the phone’s information has been entered, look for a link under the device reading “Show all usage,” then scroll down and click on “Data/Others” under the “Detailed Usage” section.

### T-Mobile:

Consumers can get a free update from their phone by sending the following text messages:

For balance - #BAL# (#225#); for minutes - #MIN# (#646#); for messages - #MSG# (#674#); for data use - #WEB# (#932)

Consumers will receive a free text outlining their total data usage for the current billing cycle. You can still check to see what you’ve used in previous months by logging into My T-Mobile (<http://my.t-mobile.com/Login>), then clicking on “Bill Summary” or another billing area, and checking out the “Data” tab on any bill view.

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20 Edward Wyatt, *Wireless Users Will Get Alerts on Excess Use*, New York Times, 17 October 2011.

In addition to checking your monthly use with your provider, there are several smart phone applications (“Apps”) that keep consumers informed of their data use and can be set to alert them when they near preset limits. These include *DataMan* (Lite: Free / Pro: \$1.99) for the iPhone and iPad, *Stats* (Ad-Supported: Free / Paid: \$1.32) for Android smart phones, and *Mobile Data Alerter* (Free) for BlackBerry 4.2+ models.

## **Asking Good Questions... And Demanding Change**

When it comes to shopping for wireless service, consumers must look beyond the sticker price in order to identify the true cost of their new cell phone. Often, the only way to do this is by asking detailed questions of customer service representatives. Sometimes, additional costs may be divulged by a salesperson when signing up.

However, others costs typically appear only later on in the consumers’ first bill. For example, consumers will only know the extent of taxes and additional administrative fees charged by wireless providers, which can be as much as \$16 per month, at the end of the first billing cycle. The activation fee of up to \$36 charged by all wireless service providers surveyed for this report (with the exception of brand name Metro PCS stores) appears on the first bill.

In the end, there is only so much that consumers can do to prevent “bill shock” without action by the wireless industry. Consumers should demand that wireless providers divulge the true, total monthly cost of their offerings *before* consumers sign up.

# Room for Improvement: A Consumer Protection Agenda for the Cell Phone Industry

While the cell phone industry is often perceived as being highly regulated, companies have significant leeway in regards to pricing and disclosure. CALPIRG Education Fund researchers found that in regards to fees, costs, and contract obligations much more transparency is needed.

CALPIRG Education Fund recommends that wireless companies take the following measures to improve transparency in the wireless market:

1. Full price disclosure: More can be done so that consumers can compare “apples to apples” when signing up to a new cell phone service. Wireless companies should clearly tell consumers which taxes and fees apply to their contract, and what their monthly base bill will look like prior to entering into a contract.
2. Contract summary: Wireless service providers should provide consumers with a short, clear, and accessible summary of the terms and conditions of their contract, prior to signing up.
3. ETF: Increase return policy to 60 days to allow for a whole cycle billing cycle to pass, empowering consumers to assess the true cost of their cell phone service plan.
4. Translation: While some wireless companies offer promotional material in languages other than English (most commonly Spanish), none provide contracts in non-English languages. Wireless companies must ensure that consumers who reviewed promotional material - or even discussed phone plans verbally with sales staff - are provided documentation in the same language in order to avoid misunderstandings lost in translation.



# Appendix

## Methodology

The recommendations in this report are based on CALPIRG Education Fund's research into the process of buying a new cell phone and consumer opinions of their wireless service providers.

### 1. **Buying a new phone: In-store survey**

This part of our research comprised of a field survey of the different cell phone offers of five major brands available in California. These included Verizon, AT&T, Sprint, T-Mobile, Metro PCS, and no-contract brands Go Phone and Boost. CALPIRG Education Fund developed a standard questionnaire that researchers used to assess the various offers available online, over the phone, and in stores. The questionnaire looked at the type of services offered, the different pricing structures, different pricing models, and contract conditions. Surveys were conducted in rural, suburban, and urban locations in northern and southern California.

### 2. **Owning a phone: Customer survey**

This part of our research comprised of an online survey of over 300 individuals. The survey was designed to capture the consumer experience after purchasing a cell phone. Volunteer respondents filled out a web-based survey comprising of open and closed questions divided into the four following sections: *general questions; bills; contracts; and consumer experience*. Our questionnaire sought to learn if there are common business practices that mislead consumers regarding true costs of phone plans, “lock” consumers

into phone services, conceal true cost of offers, or any other practices that negatively impact consumers.

## Buying a new phone: In-store survey results

CALPIRG Education Fund researchers surveyed 60 different purchasing options at brand store locations, 3<sup>rd</sup> party resellers, online offers, and over-the-phone sales offers. The following is a compilation of key findings:

### AT&T

- The most expensive handsets, with or without a contract, were likely to be found at an AT&T brand store.
- Activation fee for contract and noncontract (*Go Phone*) devices can be waived if asked over the phone, in 3<sup>rd</sup> party resellers and online, but not in AT&T brand stores.
- Consumers can find additional data packages online, including 4GB and tethering packages, not always advertised in stores.
- Compared to over-the-phone or in-store offers, consumers can find more choices of devices online. However, online device prices were not significantly different from other offers.
- One-year contract pricing was available to consumers purchasing a cell phone over the phone.
- Phone sales representative were able to match other official AT&T online or in-store offers.
- Some 3<sup>rd</sup> party reseller stores did not offer

noncontract Go Phone devices and plans.

- Online discounts are not always available in stores.
- AT&T offers a discounted “Senior Plan” available to customers 65 and older.
- AT&T offers discounts to eligible businesses, government agencies, and educational institutions. To find out if your company offers a discount on your AT&T Service, refer to: AT&T Premier Business Center.

### **T-Mobile**

- T-Mobile brand stores offer two pricing plans: “Value Plans” or “Classic Plans”. With Value Plans consumers pay more up-front for devices, but receive cheaper plans providing savings over time. With Classic Plans customers receive discounted or free devices, but incur higher monthly costs. The difference between the two plans can be as much as \$20 or more per month.
- T-Mobile brand stores offer interest-free payment plans for those who choose to pay the full price of a phone and sign up for a Value Plan, spreading the higher up-front payment over time. This offer is rarely advertised, but is worth asking salesperson about.
- 3<sup>rd</sup> party reseller stores had fewer low-end devices available, but cheaper high-end contract phones.
- Some T-Mobile brand stores offered devices with a down payment (i.e. \$199.99 + \$15 x 20 months), while others offered devices for a onetime fee together with a two year contract.
- When asked, T-Mobile brand stores and 3<sup>rd</sup> party reseller stores were likely to waive activation fee.
- Device prices were cheaper at T-Mobile’s online store when compared to T-Mobile phone-in offers.

- T-Mobile’s phone sales representatives were unable to match T-Mobile online offers.

- T-Mobile offers a 10-18% discount for military veterans, certain employers and universities.

### **Sprint**

- The range of available devices with a contract was similar among brand stores and 3<sup>rd</sup> party resellers.
- For noncontract phones under the “Boost” brand, there were more low-end device options in Sprint brand stores and cheaper high-end options at 3<sup>rd</sup> party resellers.
- All purchasing options incurred a mandatory \$36 activation fee.
- Online noncontract phone sales were available through a separate Boost branded website.
- Additional low-end price plan options not advertised in stores were available online at Sprint’s web site.
- Sprint offers a discount for military veterans, certain employers and universities up to 24% of monthly bill.

### **Verizon**

- Verizon’s online offers had more tethering data packages available than advertised in brand stores.
- Verizon phone sales representatives were able match online offers.
- Verizon offers a 15% discount for military veterans, certain employers and universities.

### **Metro PCS**

- Consumers cannot buy handsets over the phone, only in-store or online.
- Available phone plans depend on device type purchased.

- Metro PCS does not require credit checks prior to signing up new customers.
- 3rd party resellers had a wider range of devices on offer compared to online offers.
- Some Metro PCS brand stores had \$50 activation fee which was not incurred online.

## Owning a phone: Customer survey results

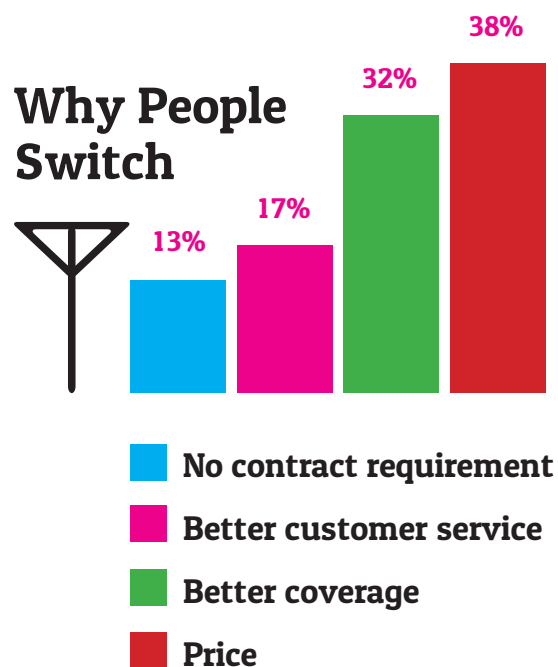
CALPIRG Education Fund researchers analyzed the results of over 300 questionnaires filled out by volunteers online. Volunteers were asked 16 questions designed to capture key elements of their user experience after purchasing a cell phone.

The following is a compilation of key findings:

- 85% of those surveyed had post-paid monthly cell phone accounts, while 15% had pre-paid or pay-as-you-go accounts that provide consumers with more control over their cell phone expenditures.
- Nearly 40% of those surveyed incurred over-charges for exceeding their package limits.
- Nearly 75% of those surveyed felt that mandatory two-year contracts with cell phone service providers is too long a commitment.
- Nearly 25% of those surveyed would not recommend their cell phone service provider.
- Respondents noted good customer care, reliably good reception, affordable plans, a wide selection of phones and service plans

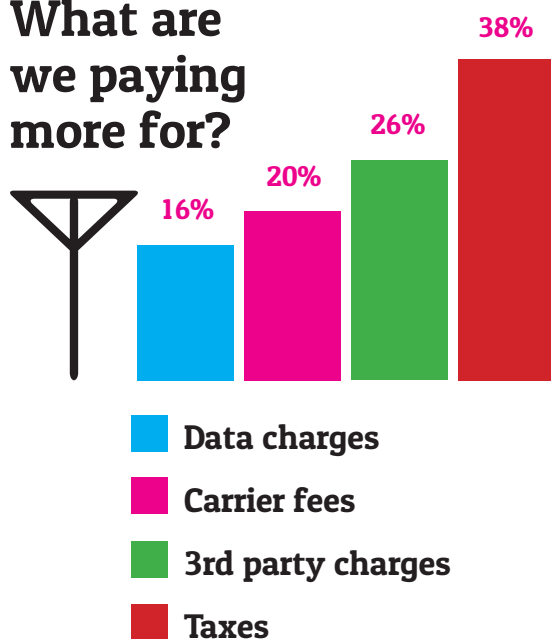
as reasons they like their cell phone service providers.

- Conversely, respondents noted bad customer care, poor reception, expensive plans, two-year mandatory contracts, “bill shock,” and the extent of political contributions by their providers as reasons they do not like their cell phone service providers.
- Respondents surveyed who had switched cell phone service providers in the past, highlighted the following reasons for switching:



- Over 36% of those surveyed, responded that their monthly cell phone bills were higher than they expected by an average of \$24 per month. This result is comparable with a 2010 study by the F.C.C., which found that 23% of mobile device users had experience unexpected charges of \$100 or more. A separate F.C.C. report noted that 20% of the bill shock complaints it received during the first half of 2010 were for \$1,000 or more in overage charges.<sup>21</sup>
- Over 32% of post-paid customers surveyed, responded that their monthly cell phone bills were higher than they expected by an average of \$24 per month.
- Nearly 30% of those surveyed found additional charges on their monthly bills, as follows:

## What are we paying more for?



<sup>21</sup> Edward Wyatt, *Wireless Users Will Get Alerts on Excess Use*, New York Times, 17 October 2011.