

# Tech Tips: Are you better off keeping Verizon contract plan?

August 10 2015, by Anick Jesdanun

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In this June 6, 2013, file photo, pedestrians pass a Verizon Wireless store on Canal Street in New York. Verizon, the nation's largest wireless provider, said it will stop requiring two-year service contracts, but customers will no longer be able to buy phones at discounted prices of \$100 or \$200. The new plans take effect Aug. 13. (AP Photo/John Minchillo, File)

Verizon is doing the unthinkable: Starting Thursday, the nation's largest wireless company will eliminate two-year service contracts, along with

the practice of offering discounted phones at prices of \$100 or \$200.

Although this has already been an option with major phone carriers, Verizon joins T-Mobile in dropping contracts and discounted phones entirely for new customers. Under the new system, people will buy phones outright, with the option of paying the full retail price in monthly, interest-free installments.

This will be better in the long run. Although it's nice to get a \$650 phone for \$200 with a contract, you pay for it in higher monthly fees for voice, text and data services. Here's the rub: You keep paying those higher fees even after your contract is over.

The contract system largely benefits those who upgrade right at the two-year mark, even though many people wait longer if the old phone's still working fine. The contract system also rewards buyers of the most expensive phones. With the change, you keep the savings when you opt for a cheaper phone with all the features and performance you need.

But contracts might still benefit you in the short run. With Thursday's changes looming, should you rush to get a discounted phone, or wait for the new plans? Here are four things to consider:

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#### UPGRADE NOW IF YOU DON'T NEED THE LATEST MODEL

If you're already with Verizon, you can keep your current plan. What's not clear is whether you'll still be able to get a discounted phone after Wednesday. Verizon Communications Inc. hasn't responded to requests since Friday for clarification.

If you're ready and eligible for a new phone, it's safer to do so by

Wednesday, before the new plans kick in.

That said, there's been speculation that Apple and Samsung will come out with new models soon. The older models tend to go down in price then. An iPhone 6 now goes for \$200 with a contract and will likely drop to \$100 when its successor comes out. But saving \$100 might not be worth the risk of having to pay full price—about \$650 now, but likely to drop to \$550 when the new model is out—if Verizon doesn't offer discounted phones to existing customers.

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## NEW PLANS MIGHT GIVE YOU MORE THAN YOU NEED

Even after paying full price for the phone, you might still break even or save money under the new plans. In general, service prices for voice, text and data are going down by about \$20 a month, offsetting the value of the subsidy you're losing on the phone under contract.

There are variations, though. For a single line, you're paying \$60 a month under the current plan for 1 gigabyte of data, but \$19 of that is the value of the subsidy for the phone. You're really paying just \$41 for the service part. Under the new plan, the monthly price for service goes up to \$50, not counting the monthly installment you could be paying for the phone. For 3 gigabytes, you're now paying \$71 after subtracting the subsidy. The price goes down to \$65 under the new plan.

The 1 gigabyte plan might be cutting it close, especially if you use cellular data to snack on video. An hour or two will eat up your allotment. Because the price goes down at 3 gigabyte, the new plans might seem better. However, many individuals now have just 2 gigabytes. It's \$56 a month after subtracting the subsidy. The 2-gigabyte option won't be available under the new plan, so you'll be paying \$9

more to get 3 gigabytes—when you need less.

Couples and families sharing larger buckets of data might also see price cuts under the new plans, but choices will be limited to 1, 3, 6 and 12 gigabytes. If you have something in between, think twice before switching. Verizon will let you keep your current plan indefinitely, but once you leave it, you likely won't be able to switch back.

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## SOME EMPLOYERS REIMBURSE FOR SERVICE, BUT NOT THE PHONE

If your company pays for all or part of your phone service, but not the phone itself, the new plans will hurt. All these years, the service fees had been inflated because phone companies had to recoup the costs of the phone subsidies. Prices under the new plans will better reflect actual costs, but that also means less service fees to reimburse.

You might want to game the system for another two years by getting a discounted phone now.

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## NO CONTRACT DOESN'T MEAN LEAVE ANYTIME

Unless you want to pay for the full price of the phone up front, you can typically spread your payments over two years, interest free. In that case, your two-year service contract gets replaced by a two-year phone installment plan. So you're still stuck with Verizon.

Don't switch to a new plan simply to avoid the contract. Many rivals will pay any penalties anyway if you have to break your contract to switch.

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Citation: Tech Tips: Are you better off keeping Verizon contract plan? (2015, August 10)  
retrieved 26 April 2024 from <https://phys.org/news/2015-08-tech-verizon.html>

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