

Tech Tips: New Phone Upgrade Plans Akin to Renting

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New York (AP) — Over the past few weeks, three major U.S. wireless providers unveiled plans to combat phone envy: Let's say you just bought a phone, and then one with better features comes out a month later. You no longer have to wait a full two years to get it. Instead, you pay a monthly fee.

The phone companies call them installment plans, but I think of them as phone rental. Before you pay off the cost of the phone, you're entitled to hand it back in to get a new one — every six months with Verizon Wireless or T-Mobile or every year with AT&T.

It's a good deal for some people on T-Mobile. Unlike the rival plans, [T-Mobile's Jump](#) [1] comes with insurance to cover loss and damage. And it doesn't add that much to the cost of the phone. With [Verizon's Edge](#) [2] and [AT&T's Next](#) [3], you're essentially paying for the same phone twice.

First, a quick explanation of how phone bills work.

When you buy an iPhone 5, you might pay \$200 for it, but it actually costs \$650. Your phone company covers the difference and makes it up over the life of the two-year service contract. On the phone bill, it just appears as a service fee for voice, text and data. But that fee actually includes an amount that helps the phone companies cover the difference. The service fee doesn't go down, however, even after you've covered the difference, or paid the phone off.

With AT&T's and Verizon's installment plans, you're paying the full \$650 for the iPhone, spread out over 20 or 24 months. But once again, the service fee doesn't go down, even though there's no "difference" the phone companies need to make up. So you're paying for the phone through the installment payments, plus what's baked into the service fee.

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Earlier this year, T-Mobile broke the service fee into two fees — one for the actual service, and one for the phone. So once you've paid off the phone, your total bill goes down. And if you sign up for Jump, you're paying a \$10 monthly fee for that, mostly for the insurance, but you're not paying for the phone twice.

Even though you're paying more for the phone with Verizon's and AT&T's plans, it might still be worthwhile if you're already planning to upgrade more frequently than every other year. Both take the hassle out of trying to sell your old device.

Here's a closer look at the three plans to see if they are right for you. I'm using prices for Samsung's Galaxy S4 in the calculations, so actual costs may vary. Keep in mind all three plans are optional, so you can still buy phones the old way.

— JUMP, from T-Mobile US Inc.

Availability: Started July 14.

How it works: T-Mobile charges \$150 up front and \$20 a month over two years for the Galaxy S4. Whether or not you get Jump, you pay that and the regular service charges for voice, texting and data. With the Jump plan, you get a charge of \$10 a month on top of all that.

Six months after you first sign up for Jump, you're entitled to two phone upgrades every 12 months. You can upgrade twice in the same month, but you'd have to wait a full year for the next one. It's better to spread upgrades out to about six months apart.

If you lose or damage your phone: No problem. The Jump plan replaces insurance, which typically costs \$8 a month. So it's just \$2 a month more for those who already get insurance to replace phones that get lost, don't work, have water damage or have cracked screens.

If you just want an upgrade: Simply turn in your old phone when you get your new one. T-Mobile will refurbish and resell it.

The catch: T-Mobile charges a down payment — \$150 in the case of Galaxy S4. It's the same as you pay when you get your first phone, but you'll be paying that each time you upgrade. If your phone is lost or damaged, and it's not covered by warranty, you pay a deductible of up to \$175. In that case, there's no down payment if you are replacing it with the same model, but you have to pay both the deductible and the down payment if you want to upgrade to a different model.

Cost analysis: You break even at 16 months. That is, you have \$160 left in payments for your phone, which gets waived when you upgrade through Jump. But you have paid \$160 for Jump by that point. At month 17, you pay more for Jump than what you would have to make up in remaining installments. But Jump gives you insurance during that period.

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You're better off with Jump if you upgrade before the 16-month mark, but it's still more expensive than waiting out the two years, when the phone is normally due for an upgrade. Let's say you upgrade the maximum twice a year. That's three extra phones over those two years. The fourth is the one you would have gotten anyway when the two years are up. At Galaxy S4 prices, that works out to \$690 over two years for the luxury — \$450 for the phones and \$240 for the cost of Jump. If you would have gotten insurance anyway, figure you're paying just \$498 more.

If you upgrade every other year, you're paying an extra \$390 over two years — \$150 for the additional phone and \$240 for Jump. Again, this assumes you would have upgraded anyway after two years. If you would have gotten insurance anyway, it's \$198.

Bottom line: Get it only if you already plan to get insurance or if you want a new phone before 16 months.

— NEXT, from AT&T Inc.

Availability: Coming this Friday.

How it works: There's no down payment or upgrade fee. You simply pay the full cost of the phone over 20 months. For instance, the full retail price of the Galaxy S4 is \$640, or \$32 a month. You're eligible to exchange your phone for a new one in 12 months. Payments stop after 20 months if you decide to keep the phone.

If you lose or damage your phone: Insurance is not included, so you're responsible for that. The phone you turn in must be working and in good physical condition —so no cracked screens.

If you just want an upgrade: After 12 months, you can turn in the old phone for a new one. After 20 months, you keep the old phone when you upgrade.

The catch: You're essentially paying twice for the phone.

Cost analysis: Normally, you pay \$200 up front, so for a \$640 phone, you're paying \$440 extra per device to upgrade every year instead of every two years. If you do upgrade, payments don't stop after 20 months. Over two years, those monthly fees add up to \$568 above the \$200 you would have normally paid.

Without the plan, you could simply break the contract after 12 months and pay \$478 for a new phone and for activation, termination and upgrade fees. You can also make about \$300 of that back by selling the old phone. With AT&T Next, you have to turn in that phone to receive your upgrade.

Bottom line: Get it only if you plan to upgrade once a year and don't want to deal with the hassle of reselling your old phone.

— EDGE, from Verizon Wireless

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Availability: Coming Aug. 25.

How it works: It's similar to AT&T Next, except you're spreading the cost over 24 months. The full price of the Galaxy S4 is \$650 at Verizon, so that's about \$27 a month.

You can get a new phone in six months, rather than the full year under AT&T's plan. Payments stop after 24 months if you keep the phone.

If you lose or damage your phone: Like AT&T's plan, Verizon Edge doesn't include insurance. Phones must be in working condition and can't have damage such as cracked screens.

If you just want an upgrade: After six months, you can upgrade your phone by turning the old one in. After 24 months, you keep the old phone.

The catch: You're essentially paying twice for the phone. In order to upgrade, you must already have paid at least 50 percent of the cost of the phone. You hit that threshold after one year, so if you upgrade six months early, you have six months of payments to make right away to be eligible. Your new phone comes with new installment payments, even though you've just covered the next six months of payments. You're essentially doubling the payments over those six months.

Also, it's open only to those on Share Everything plans. Customers still on Verizon's older, unlimited data plans are not eligible and must switch to a limited-use plan to participate.

Cost analysis: Normally, you pay \$200 up front, so for a \$650 phone, \$450 is the minimum premium you pay to upgrade more frequently. If you haven't reached the 50 percent threshold yet, you'll be paying even more. Upgrade every six months as allowed, and you face 12 additional monthly payments over two years (six each year).

Those 12 payments add up to \$325, assuming the same retail price for the Galaxy S4 replacement. With the additional \$450 you're already paying over the normal way of buying phones, you're paying an extra \$775 over two years to upgrade every six months. As is the case with AT&T, you might be better off breaking a contract and trying to resell the old phone, but Edge removes the hassle.

Bottom line: Get it only if you plan to upgrade at least once a year and don't want to deal with the hassle of reselling your old phone. But try to at least wait out a year, rather than succumb to temptations after six months.

— ANOTHER LOOK

I can wait two years for a new phone rather than pay several hundred dollars extra. So can a lot of people I know. But I'm sure there are a lot of people who absolutely must have the latest and the greatest.

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If you upgrade every other year, these are your additional costs over two years: \$390 with T-Mobile, \$450 with Verizon and \$568 with AT&T. If you get insurance through T-Mobile anyway, then the additional cost is just \$198. If you upgrade every six months, you pay an additional \$690 over two years with T-Mobile and \$775 with Verizon.

If you get insurance, the additional cost with T-Mobile is \$498. You can't upgrade that frequently with AT&T. Once again, calculations use Galaxy S4 prices and assume the same prices for the upgraded model.

If those are the prices you're willing to pay for the newest phones, by all means, go for it.

Several decades ago, people used to rent landline phones from AT&T. Once the phone company started letting people buy their own phones, people realized the one-time fee was more economical. But there were people who kept renting.

With landline phones fading, it appears phone companies have stumbled upon a new way to get people to rent.

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Online:

T-Mobile Jump: <http://explore.t-mobile.com/phone-upgrade> [1]

AT&T Next: <http://att.com/next> [3]

Verizon Edge: <http://www.verizonwireless.com/edge> [2]

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