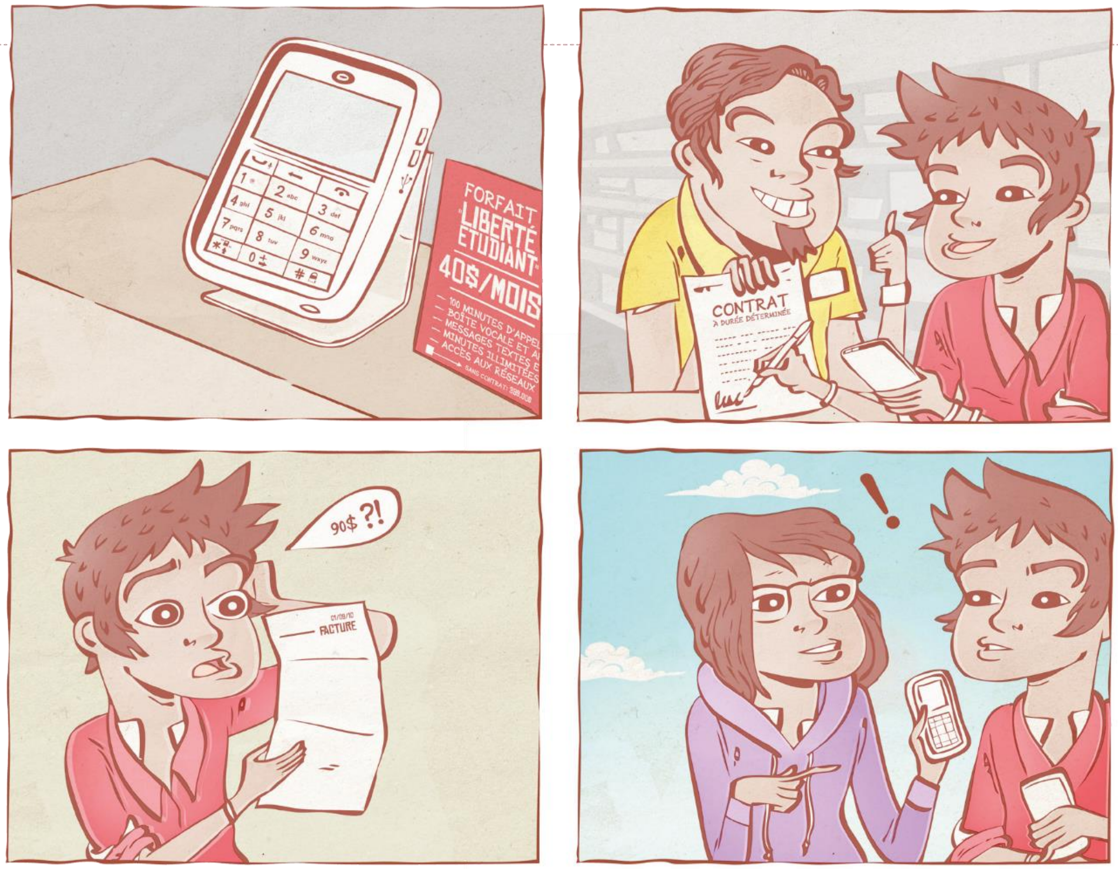
A Telephone for Luke

Luke wants to buy a cell phone. The cell phone service supplier has offered him a 36-month contract. This is referred to as a fixed-term contract. Luke finds the offer attractive, especially because it will give him the cell phone he wants for free.



The device will let him surf the web, watch videos, stay on top of breaking news, text messages to his friends, record videos, and more. Without a contract, the phone would cost $399. “I'm saving a lot of money!” he thinks. The retailer offers him the “Student Freedom” plan. The price advertised on store posters is $40 per month. The package includes:

– 100 minutes of daytime calls per day;
– voice message box and call display;
– unlimited incoming/outgoing text messages;
– unlimited evening and weekend calls;
– unlimited access to social networks.

Luke accepts the deal from the retailer. He's in for a surprise! When he receives his first bill, he doesn't understand why he is being charged $90 instead of $40. What happened? He calls the supplier’s customer service department to find out why he has to pay an extra $50 this month. “The cost of the plan doesn't include certain fees,” says the agent on the phone. “These are explained in your contract,” he adds. But Luke never took the time to read it.

Now, reading his contract, he sees that he must pay the following fees, in particular:

– municipal tax for the 9-1-1 service: $0.40;
– network access: $7.60;
– file opening: $30;

What’s more, the agent tells him he was charged an extra $12 for using 30 minutes of calls over and above the number of daytime minutes in his package. It turns out every extra minute costs $0.40!

Over the next month, Luke keeps a close eye on how he uses his phone. “No more surprises for me!” he thinks. When chatting with Kim, however, he discovers that he is paying $10 more than she is for a similar package. “I'm going to cancel my contract,” he thinks. When he contacts the supplier, he is warned that there are 22 months left before the end of his contract. “You’ll have to pay a cancellation penalty of $440.”

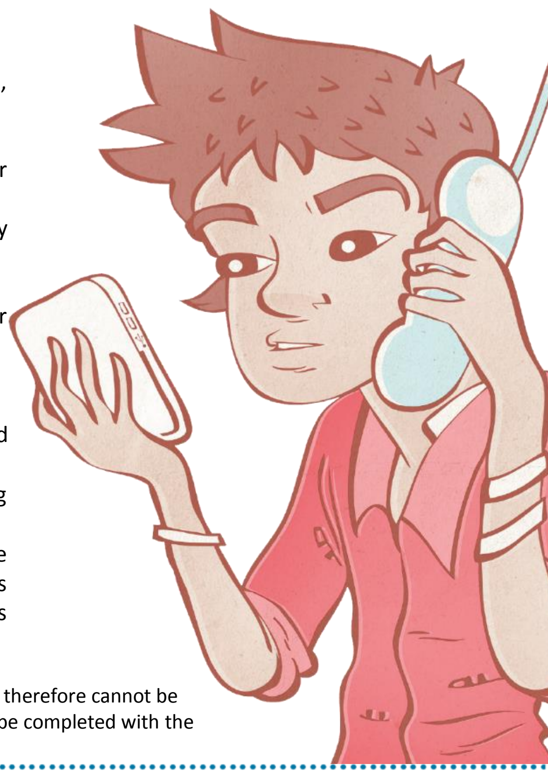
What can Luke do?

Instructions:
Analyze Luke's case using the table below. Assess every aspect of the case, where applicable, based on the excerpts below from the *Consumer Protection Act*. Determine what an informed consumer should do in this situation.

Aspect of case	Correct or incorrect?	Justify your answer.	What should an informed consumer do in this situation?
Luke never took the time to read the contract before signing it.			
The salesperson warns Luke that he will have to pay a penalty to cancel his contract.			
The price advertised in-store doesn't include certain fees that Luke will have to pay.			

What the law says

- A cell phone service contract must be provided to the consumer in writing and must contain, beginning on the first page, certain information, such as:
  - a detailed description of all services covered by the contract;
  - the monthly rate for all services covered by the contract, including the monthly fee for optional services like voice messages;
  - the monthly rate for all associated fees (e.g., fees for access to the 9-1-1 emergency line or network access fees);
  - the total amount the consumer must pay every month;
  - where applicable, a description and the regular price of the product sold or offered for free when the service contract is signed (e.g., cell phone);
  - the contract term and expiry date;
  - the terms governing contract cancellation.
- The advertised price must include all the amounts the consumer will have to pay to obtain the good or service. GST, QST and the municipal tax for 9-1-1- can be excluded from the advertised price.
- The consumer may, at any time and at his or her discretion, cancel the contract by sending the company a written notice.
- When a consumer cancels a fixed-term contract, the cancellation penalty cannot exceed the rebate on the sale price of the product needed to use the service, i.e., the cell phone. This maximum penalty gradually declines proportionately to the number of contract months remaining on the contract.



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Additional activity

The retailer asks Luke to pay a $440 cancellation penalty. Using the formula presented below, determine if this is the correct amount.

To calculate the maximum cancellation penalty:

Maximum cancellation penalty =
[Rebate on the price of the product (the phone)] –
[Rebate on the price of the product x Number of months fully elapsed at time of cancellation ÷ Contract term]

Information for solving this problem:

– Rebate on the product sale price: ________
– Contract term: ________
– Number of full months elapsed: ________

Calculation:

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