



Moving Back Home: Unexpected Implications of the ACA on Adult 'Boomerang' Children.

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The Affordable Care Act (ACA) has surprising implications for “boomerang children” and their parents. “Boomerangs,” young adults who (often for financial reasons) move in with their parents, may be disproportionately uninsured. Those who remain uninsured could unknowingly expose their parents to significant tax penalties, even if the rest of the family has health coverage. But these young adults’ access to affordable health insurance under the ACA will vary significantly—depending on their tax circumstances and state of residence. Unfortunately, these outcomes may catch uninsured boomerang children and their unsuspecting parents entirely by surprise.

We summarize the available demographic information about the population of boomerang children below. Additionally, we provide an analysis of a common example to illustrate the ACA implications to such families.

Background

The incidence of adult children living at home with their parents reached historical highs in the aftermath of the financial crisis and recession. A 2012 Pew Research Center survey found that approximately one in eight young adults (aged 25 to 34) lives with their parents—and roughly three in ten of adults in this age groups had moved “back home” at least temporarily during the recent economic recession.¹ Applied to the age distribution of the U.S. population, some 4.9 million young adults may currently live their parents, with an additional 7.0 million who had temporarily moved home in the past few years.²

These “boomerang” children are not concentrated in a comparatively smaller group of families or demographic subsets. Roughly 29% of parent of adult children report that a child has moved in with them during the recession because of economic conditions.³ Parents earning more than \$100,000 were as likely as parents making \$30,000 or less to report that their adult children had moved home.⁴ While relatively few of these “boomerang” children appear to be directly dependent on their parents for financial support,⁵ a disproportionate number of individuals in their age group may lack health insurance.⁶

The decision to move back home appears to change the household composition (and associated income) of a boomerang child. Only about 10% of young adults living with their parents is in a household below the federal poverty

level (FPL). In contrast, young adults not living with their parents were nearly two times more likely to be living below 100% FPL.⁷ As will be shown, these changes in household income may have substantial eligibility implications (and tax penalty impacts) on the children and their parents.

Example

A case scenario may help to illustrate the implications of the ACA to boomerang children. Take the example of a 28-year-old uninsured male who resides in New Jersey, having moving back home with his father and stepmother. The 28-year-old is unemployed and claims no income. The father earns \$60,000 per year, and the stepmother earns roughly \$10,000 per year. Both the father and stepmother have coverage through work but the son is too old to qualify for the employer-sponsored plan. For the previous tax year, the father claimed personal exemptions for the one dependent adult child on his federal income tax return. No one in the family claims a disability, nor is anyone pregnant. Everyone in the household is a U.S. citizen. For reference, New Jersey has expanded Medicaid to otherwise-eligible adults under 65 with incomes under 138% FPL.

Likely Eligibility Outcome (Medicaid and Tax Credit/IRC § 36B Analysis)

If the father intends to claim a personal exemption for his 28-year-old son as a dependent on his 2014 return, then for the purpose of determining Medicaid eligibility the household would include three individuals—and the household would have a countable income of \$70,000. This household, including but not limited to the 28-year-old, would be ineligible for Medicaid even though New Jersey has expanded the Medicaid program for adults under 138% FPL.

If the father claims a personal exemption for the 28-year-old son, then the father would be eligible for a premium tax credit based on the son’s cost of coverage. However, the son’s premium might be too low to yield a tax credit because of the way the premium tax credit is calculated. Stated differently, the father may qualify for a tax credit to help pay the premium for the 28-year-old—but the credit may have zero value.⁸

If the father does not intend to claim his 28-year-old son

as a dependent, then the 28-year-old would be treated for Medicaid purposes as a household of one. He would likely be eligible for Medicaid as he would be under the 138% FPL income threshold (and because New Jersey has expanded Medicaid for such adults).⁹ Provided that the father had a good faith belief that he would not claim him but later changed his mind after the end of the tax year, the 28-year-old would maintain his Medicaid eligibility for the respective tax year. However, claiming the son as a dependent could possibly affect the son's Medicaid eligibility for subsequent years.

Note that that Medicaid analysis would be entirely different if the family were to instead reside in a state that has not expanded Medicaid for adults. In these states, the son would be eligible for Medicaid only if he qualified under one the traditional eligibility categories (i.e., if he qualified because he was on the "five-finger test" for Medicaid as being aged, blind, disabled, pregnant/parenting adult, or a minor child). Because the son does not appear to qualify under the traditional Medicaid categories, he would likely be ineligible if the family lived in a "non-expansion" state.

Likely Tax Penalty Outcome (IRC § 5000A Analysis)

Under the final "shared responsibility payment" or tax penalty rules for individuals, a taxpayer has liability for a nonexempt uninsured dependent even if the taxpayer does not claim the dependent.¹⁰ In this example, the 28-year-old would likely satisfy the definition of a qualifying relative under § 151(d) of the Internal Revenue Code (IRC). Thus, the 28-year-old son would be a dependent under the tax penalty rule. In the absence of a penalty exemption for the 28-year-old, the father could be subject to the tax penalty for this dependent even if the father did not elect to claim this dependent.

In general, the computation of the penalty would be the lesser of (a) the sum of the monthly penalty amounts or (b) the sum of the monthly national average bronze plan premiums for the family. The sum described in (a) is the greater of (i) the flat dollar amount¹¹ or (ii) the applicable percentage (e.g., 1% in 2014) of the taxpayer's household income over the applicable filing threshold. Here, the sum described in (a) would be the greater of (i) \$95 or (ii) 0.01

x (\$70,000 - \$24,250), which is \$458.¹² For purposes of this example, we will assume that (b) is equal to \$5,000. Based on this information, the father would be liable for the 2014 tax year for a penalty of \$458 for his nonexempt 28-year-old dependent.

It is unclear whether the 28-year-old may be eligible for an exemption. While households with incomes below the filing thresholds are generally exempt, the 28-year-old would be a member of a household with an income above the threshold if the father claimed him as a dependent.¹³ Consequently, the 28 year old would likely be ineligible for a hardship exemption if the father claims a dependent exemption for him. However, it is unclear whether the 28-year-old would qualify for this exemption if his father did not claim him as a dependent.

The father is in an unfortunate pickle. Given the privacy protections regarding the son's insurance status and financial situation, the father may not even realize that his 28-year-old son is uninsured and/or meets the definition of a qualifying relative. Under these circumstances, then, the father may have no way of knowing whether he faces a penalty liability. That said, the IRS has not clarified how it will ultimately address such situations.

Conclusion

The number of boomerang children has increased substantially during the recent recession, with some 12 million young adults move back home with their parents (at least temporarily during this period). Particularly as many of these individuals are ineligible for their parent's health coverage through employer sponsored-insurance plans because of their age, these young adults are often uninsured.

Depending on their situation and state of residence, they may or may not qualify for assistance under the ACA's insurance affordability programs. However, they may also and perhaps unknowingly expose their parents to tax penalties if they remain uncovered.

Because of the complexity of these issues, federal and state policymakers may find it advantageous to provide information specific to households with boomerang children. Such families should also seek tax and ACA assistance from a qualified professional as they wade through these new tax and health care rules.

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Endnotes

- 1 Parker, Kim, "The Boomerang Generation: Feeling OK about Living with Mom and Dad," Pew Research Center, Social and Demographic Trends, March 15, 2012, p. 6, available at <http://www.pewsocialtrends.org/2012/03/15/the-boomerang-generation/#overview>, accessed October 13, 2013.
- 2 Parker (2012) reports that 41% and 17% of young adults age 25-29 and 30-34, respectively, live with or have moved back in temporarily with their parents because of the economy. Ibid, p. 8. Applying these proportions (and those in the text above) to the age distribution of the U.S. population from the 2010, some 12.0 million young adults would comprise this group of "boomerang" children. See U.S. Census 2010, Profile of General Population and Housing Characteristics: 2010 (DP-1), available at http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=DEC_10_DP_DPDP1, accessed on October 17, 2013.
- 3 Ibid, p. 1-2, 8. See also, Wang, Wendy and Rich Martin, "Home for the Holidays... and Every Other Day," Pew Research Center, Social and Demographic Trends, November 24, 2009, available at <http://www.pewsocialtrends.org/2009/11/24/home-for-the-holidays-and-every-other-day/>, accessed October 17, 2013; Taylor, Paul et al, "The Return of the Multi-Generational Family Household" Pew Research Center, Social and Demographic Trends, March 18, 2010, available at <http://www.pewsocialtrends.org/files/2010/10/752-multi-generational-families.pdf>, accessed October 17, 2013.
- 4 Parker (2012), p. 8.
- 5 Ibid, p. 14.
- 6 DeNavas-Walt, Carmen, Bernadette D. Proctor, Jessica C. Smith, "Income, Poverty and Health Insurance Coverage: 2012" Current Population Survey Report, U.S. Census Bureau, September 2013, available at <http://www.census.gov/prod/2013pubs/p60-245.pdf>, access October 17, 2013. See also, Rodean, Jason, "Health Insurance Coverage of Young Adults Aged 19 to 25: 2008, 2009, and 2011," American Community Survey Brief, U.S. Census Bureau, September 2012, available at <http://www.census.gov/prod/2012pubs/acsbr11-11.pdf>, accessed October 17, 2013. Please note that many of these "boomerang" adult children are ineligible for their parent's health coverage through employer sponsored-insurance plans because of their age, and these young adults are often uninsured. Under the ACA and its implementing rules, health plans must cover children of parents but only until such children turn 26 years old. See Section 2714(a) of the Public Health Service Act (as added by PPACA § 1001(1)); 75 Fed. Reg. 27122 (May 13, 2010).
- 7 Parker (2012), 2 About 9.8% of young adults living in a multi-generational household were below the poverty line. Meanwhile, 17.4% of young adults not living in a multi-generational household were found to be under the poverty level.
- 8 The age-adjusted premium for the 28-year-old (perhaps \$270 per month) may be lower than the percentage of the modified adjusted household income that the family must contribute toward his premium (i.e., 9.5% in this instance). The \$270 age-adjusted monthly premium for a silver-tier plan is based on figures reported by the Kaiser Family Foundation's interactive subsidy calculator at <http://kff.org/interactive/subsidy-calculator/> and is subject to change. Other insurance options (e.g. bronze and catastrophic plans) are available for lower premium amounts, though these other options have higher deductibles and other cost-sharing.
- 9 77 Fed. Reg. 17144, 17207 (March 23, 2012) (to be codified at 42 CFR § 435.603(f)(3)).
- 10 78 Fed. Reg. 53646, 53657 (Aug. 30, 2013) (to be codified at 26 CFR § 1.5000A-1(c)(2)).
- 11 The final rule on the individual mandate and associated tax penalties clarifies that the flat dollar amount for an entire household is limited to 300% of the applicable dollar amount per uninsured adult. Id. at 53662 (to be codified at 26 CFR § 1.5000A-4(b)(2)(i)(B)).
- 12 For illustrative purposes here, we assume that the applicable filing threshold for this family in 2014 would be \$24,250.
- 13 See id. at 53661 (to be codified at 26 CFR § 1.5000A-3(f)(2)(ii)) (clarifying that "The applicable filing threshold for an individual who is properly claims as a dependent by another taxpayer is equal to the other taxpayer's applicable filing threshold.")