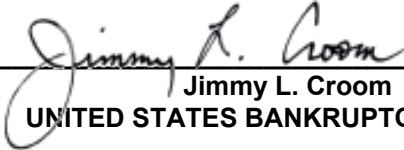




**Dated: May 10, 2017**  
**The following is SO ORDERED:**

  
\_\_\_\_\_  
Jimmy L. Croom  
UNITED STATES BANKRUPTCY JUDGE

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**UNITED STATES BANKRUPTCY COURT  
WESTERN DISTRICT OF TENNESSEE  
EASTERN DIVISION**

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In re )  
 )  
JACQUELINE CAROL MCDANIEL, ) **Case No. 16-12461**  
 )  
Debtor. ) **Chapter 7**  
 )

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**MEMORANDUM OPINION RE TRUSTEE'S OBJECTION TO DEBTOR'S  
CLAIMED AMENDED EXEMPTIONS**

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At issue in this case is whether the debtor may exempt \$10,681.73 in life insurance proceeds from the claims of all creditors in this case. On her petition, the debtor indicated her deceased husband was jointly liable for some of the unsecured debts listed in her case. The Chapter 7 Trustee asserts that the life insurance proceeds are only exempt from the claims of the decedent's individual creditors.

This proceeding arises in a case referred to this Court by the Standing Order of Reference, Misc. Order No. 84-30 in the United States District Court for the Western District of

Tennessee, Western and Eastern Divisions, and is a core proceeding pursuant to 28 U.S.C. § 157(b)(2)(B). This Court has jurisdiction over core proceedings pursuant to 28 U.S.C. §§ 157(b)(1) and 1334. The Court also has the constitutional and statutory authority to finally resolve disputes involving a debtor's claimed exemptions. *In re Gillenwater*, 479 B.R. 711, 713 (Bankr. W.D. Va. 2012) (concluding that a bankruptcy court "has constitutional authority to enter a final order upon such an objection because the determination of the extent of the bankruptcy estate and any exemptions from it is essential to the administration of the bankruptcy estate.") Thus, the Court may enter a final order in this matter. This memorandum opinion shall serve as the Court's findings of facts and conclusions of law. Fed. R. Bankr. P. 7052.

## I. FACTS

The facts in this case are undisputed. Jacqueline Carol McDaniel ("Debtor") filed her chapter 7 petition for bankruptcy relief on November 21, 2016. She indicated on her petition that after exemptions and payment of administrative expenses there would not be any funds available to pay her unsecured creditors. Consequently, the "Notice of Chapter 7 Bankruptcy Case" issued in this case asked creditors not to file proofs of claim until notified to do so. (Notice of Case at 2, ECF No. 5). The Debtor indicated on Schedule E/F of her petition that 10 of her 27 unsecured creditors hold joint debts against the Debtor and her deceased husband.

Initially the Debtor did not claim the life insurance proceeds as exempt; however, she filed an amended Schedule C on January 16, 2017. (Amended Sched. C, ECF No. 16). Pursuant to this amended schedule, the Debtor claimed \$1,129.00 of the \$10,000.00 life insurance policy proceeds as exempt pursuant to Tennessee Code Annotated § 26-2-103. (*Id.*) On March 2, 2017, the Debtor amended her claimed exemption to claim \$10,681.73 of the proceeds as exempt pursuant to Tennessee Code Annotated § 56-7-203. (Second Amended Sched. C, ECF No. 22).

The Trustee filed an objection to the amended exemption on March 8, 2017. The Trustee asserted that life insurance proceeds are not exempt from the claims of a beneficiary's creditors. The Debtor filed an answer to the Trustee's objection on March 16, 2017, in which she asserted that "no claims have been filed in this case and no creditors appear to exist for payment through the bankruptcy estate." (Ans. to Trustee' Obj. at 1, ECF No. 28).

The Court conducted a hearing on the exemption issue in this case on April 13, 2017, pursuant to Fed. R. Bankr. P. 9014. At the conclusion of the hearing, the Court took the matter under advisement and gave the parties two weeks to file any post-hearing briefs. The parties filed these briefs on April 24 and 27, 2017.

## II. ANALYSIS

The Bankruptcy Code allows debtors to exempt certain property of their bankruptcy estates from the claims of creditors. The exemption provision is found in § 522 of the Code. It provides that debtors may utilize the exemptions listed in § 522(d) or those set forth by applicable state law, unless state law prohibits the use of the § 522(d) exemptions. 11 U.S.C. § 522(b). Tennessee has enacted such a prohibition and, as a result, its citizens in bankruptcy are limited to the exemptions provided by Tennessee law. T.C.A. § 26-2-112. Exemptions are to be construed liberally in favor of debtors. *In re Nipper*, 243 B.R. 33, 35 (Bankr. E.D. Tenn. 1999). “A party objecting to claimed exemptions must prove that the exemption is not properly claimed by a preponderance of the evidence.” *In re Guikema*, 329 B.R. 607, 611 (Bankr. S.D. Ohio 2005) (citation omitted); Fed. R. Bankr. P. 4003(c).

The controlling Tennessee insurance exemption is found at Tennessee Code Annotated § 56-7-203 titled “Proceeds payable to spouse, children, or dependent relatives; exemption from creditors’ claims.”

The net amount payable under any policy of life insurance or under any annuity contract upon the life of any person made for the benefit of, or assigned to, the spouse and/or children, or dependent relatives of the persons, shall be exempt from all claims of the creditors of the person arising out of or based upon any obligation created after January 1, 1932, whether or not the right to change the named beneficiary is reserved by or permitted to that person.

Pursuant to this section, proceeds of life insurance policies in the hands of a decedent’s spouse, child, or dependent relative are exempt from the claims of the decedent’s creditors, but not from the claims of the creditors of the beneficiary. *McLemore v. Huffines (In re Huffines)*, 57 B.R. 740, 742 (M.D. Tenn. 1985); *Harvey v. Harrison*, 14 S.W. 1083 (Tenn. 1981).

Although not referenced by the Debtor, the Court finds that it must also look to § 56-7-201 of the Tennessee Code for guidance in making its decision. This section provides that:

Any life insurance effected by a husband or wife on such person's own life shall, in case of that person's death, inure to the benefit of the surviving spouse and children, and the money thence arising shall be divided between them according to the statutes of distribution, *without being in any manner subject to the debts of the decedent*; provided, that the proceeds of such insurance payable to a testate estate shall pass, as part of the estate and under the dispositive provisions of the will, as ordinary cash, whether or not the will uses any apt or express words referring to the insurance proceeds, but such proceeds shall not be subject to the debts of the decedent unless specifically charged therewith in the will.

Tenn. Code Ann. § 56-7-201 (emphasis added). Pursuant to this section, the proceeds of a life insurance policy payable to a spouse or child are exempt from the claims of the decedent's creditors. Section 56-7-201 clearly states that the proceeds are not "in any manner subject to the debts of the decedent." It does not contain any extension of this exemption to the debts of the spouse or child. Had the Tennessee legislature intended such a result, surely they would have included "or the debts of the beneficiary spouse or child" in the statute. Pursuant to this section, proceeds of life insurance policies in the hands of a decedent's spouse or child are exempt from the claims "against the [decedent] existing at the date of death," but not from the claims of the creditors of the spouse or children. *In re Huffines*, 57 B.R. at 742 (citation omitted); see also *In re Day*, 176 F. 377, 379 (M.D. Tenn. 1909) (concluding that the exemption found in Tennessee Code Annotated §§ 56-7-201 and 56-7-203 "relate only to exemption from liability for the debts of the husband, and in no way create any exemption from liability for the debts of the beneficiaries themselves as named in the policies.").

While it is true that courts have determined that the exemption applies to joint debts, those decisions deal exclusively with an exemption in the cash surrender value of an insurance policy when both debtors are still living. See, e.g., *In re Olien*, 256 B.R. 280, 283 (Bankr. E.D. Tenn. 2000). That fact scenario is decidedly different from the one in which a spouse receives the proceeds of a life insurance policy after her spouse has died. The cash surrender value of any insurance policy belongs to the named insured, not the beneficiary. *In re Olien*, 256 at 283; see also *Bell v. Bell*, 896 S.W.2d 559, 562 (Tenn. Ct. App. 1994) (recognizing that "[i]t is settled in Tennessee that such beneficiary has no vested right or interest in the policy but rather a mere expectancy."). Conversely, the proceeds of a life insurance policy paid upon the named insured's death become the property of the named beneficiaries. *Sam Levy & Co. v. Davis*, 142 S.W. 1118, 1119 (Tenn. 1911) (citation omitted).

When dealing with the proceeds of a life insurance policy paid upon the death of a spouse, courts have held that the exemptions found in Tennessee Code Annotated §§ 56-7-201 and 56-7-203 do not extend to any joint debts of the decedent and the beneficiary. *Buff v. Fugate (In re Buff)*, No. 2:05-CV-277, 2006 WL 752593, \*1 (E.D. Tenn. March 22, 2006). These decisions look to the statutory language itself in reaching their conclusions. In *In re Buff*, the District Court examined the language of Tennessee Code Annotated § 56-7-201 and concluded that

the statute plainly states that the life insurance proceeds will pass to the beneficiary “without being in any manner subject to the debts of the decedent.” There is simply no mention of the statute also applying to the joint debts of the decedent *and* the beneficiary.

*Id.*, 2006 WL 752593, at \*2. This Court finds that the language of § 56-7-203 clearly states that it exempts life insurance proceeds “from all claims of the creditors of the” named insured. It does not extend the exemption to any joint debts of the decedent and the beneficiary. Had the legislature intended such a result, it could have provided for that in the statute.

Accordingly, the Court concludes that Tennessee Code Annotated §§ 56-7-201 and 56-7-203 only exempt life insurance proceeds from the claims of the decedent’s individual creditors and do not exempt the proceeds from the claims of any joint debts held by the decedent and the beneficiary.

### III. CONCLUSION

For the reasons set forth herein, the Trustee’s objection to the Debtor’s claim of exemptions in the life insurance policies paid to her upon the death of her husband pre-petition will be sustained. The Court concludes that the life insurance proceeds are not exempt from the claims of the Debtor’s individual creditors or from the claims of any creditors holding joint debts against the Debtor and her deceased husband.

An order will be entered in accordance herewith.

Mailing List

Debtor

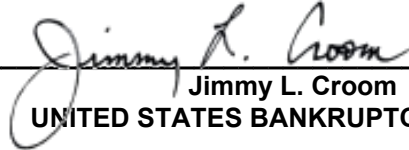
Ronald E. Darby, attorney for Debtor

Michael T. Tabor, Chapter 7 Trustee

Stephen L. Hughes, attorney for Chapter 7 Trustee



**Dated: May 10, 2017**  
**The following is SO ORDERED:**

  
\_\_\_\_\_  
Jimmy L. Croom  
UNITED STATES BANKRUPTCY JUDGE

---

**UNITED STATES BANKRUPTCY COURT  
WESTERN DISTRICT OF TENNESSEE  
EASTERN DIVISION**

---

In re	)	
	)	
JACQUELINE CAROL MCDANIEL,	)	Case No. 16-12461
	)	
Debtor.	)	Chapter 7
	)	

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**ORDER SUSTAINING TRUSTEE'S OBJECTION TO DEBTOR'S  
CLAIMED AMENDED EXEMPTIONS**

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For the reasons set forth in the Court's Memorandum Opinion re: Trustee's Objection to Debtor's Claimed Amended Exemptions entered contemporaneously herewith, the Trustee's Objection is **SUSTAINED**. The Debtor's claimed exemption in the Allstate Heritage Life Insurance Company policy in the amount of \$10,681.73 pursuant to Tennessee Code Annotated § 56-7-203 is hereby **DISALLOWED** insofar as it attempts to exempt the proceeds

from the claims of any creditors of Jacqueline Carol McDaniel and from the claims of any creditors holding joint debt against Jacqueline Carol McDaniel and her deceased husband Delbert McDaniel.

**IT IS SO ORDERED.**

Mailing List

Debtor

Ronald E. Darby, attorney for Debtor

Michael T. Tabor, Chapter 7 Trustee

Stephen L. Hughes, attorney for Chapter 7 Trustee