

IN THE COURT OF APPEALS OF TENNESSEE
AT NASHVILLE
July 22, 2015 Session

**TONYA A. ANDREWS, ADMINISTRATOR FOR
THE ESTATE OF JAMES CHRISTOPHER SPRINKLE**

v.

AMY WRAY, ET AL.

**Appeal from the Chancery Court for Marshall County
No. 16779 J.B. Cox, Chancellor**

No. M2014-01398-COA-R3-CV – Filed August 18, 2015

The sole issue in this action by a decedent’s estate to set aside a fraudulent conveyance in order to execute on a monetary judgment is whether life insurance proceeds paid to the decedent’s surviving spouse are exempt from claims of a creditor of the surviving spouse. The unusual twist in this matter is that the creditor is the estate of the surviving spouse’s deceased husband. Following the husband’s death and the appointment of the decedent’s mother as the Administrator of his estate, the estate obtained a judgment against the surviving spouse for conversion of the decedent’s separate assets soon after his death. After obtaining the judgment against the surviving spouse in a separate action, the estate commenced this action to satisfy the judgment by executing on real property that the surviving spouse acquired after her husband’s death and subsequently conveyed to her sister-in-law for no consideration. The trial court set aside the conveyance of the real property as fraudulent and authorized the estate to “levy execution against the real property to the extent necessary to satisfy the judgment.” The surviving spouse does not appeal the fraudulent conveyance ruling; instead, she contends the real estate is immune from the estate’s claim because she used life insurance proceeds to purchase the real estate, and proceeds from a life insurance policy are immune from the claims of the estate’s creditors pursuant to Tenn. Code Ann. § 56-7-202 and Tenn. Code Ann. § 56-7-203. The trial court found the surviving spouse’s reliance on the statutes to be misplaced because the statutes exempt life insurance proceeds payable to the surviving spouse or children from claims of “the decedent’s creditors,” not from creditors of the surviving spouse. We affirm. We also find that the appeal is frivolous and remand so the trial court may award just damages pursuant to Tenn. Code Ann. § 27-1-122.

Tenn. R. App. P. 3 Appeal as of Right; Judgment of the Chancery Court Affirmed

FRANK G. CLEMENT, JR., P.J., M.S., delivered the opinion of the Court, in which D. MICHAEL SWINEY and ANDY D. BENNETT, JJ., joined.

L. Samuel Patterson, Jr., Columbia, Tennessee, for the appellants, Amy Wray and Melinda Wray.

L. Bruce Peden, Columbia, Tennessee, for the appellee, Tonya Andrews, Administrator of the Estate of James Christopher Sprinkle.

OPINION

James Christopher Sprinkle died intestate on October 14, 2009. He is survived by two heirs at law: his wife, Amy Wray,¹ and a minor son from a previous marriage. He is also survived by his mother, Tonya Andrews.

At the time of his death, the decedent owned and operated a plumbing business, which was the principal asset of his estate. He also had a life insurance policy in the amount of \$250,000, of which one-half was payable to Amy Wray upon his death. As the policy directed, life insurance proceeds in the amount of \$125,000 were paid directly to Amy Wray by the insurance company shortly after the decedent's death.

Amy Wray used most of the proceeds from her husband's life insurance policy to purchase real property for \$95,000. A warranty deed confirming the purchase was recorded on March 2, 2010. Twenty days later, on March 22, 2010, Ms. Wray was served with a petition to appoint an administrator of her deceased husband's estate along with notice of a hearing on April 9, 2010. On April 7, 2010, she transferred the property to her sister-in-law, Melinda Wray, by a quitclaim deed for the consideration of "\$0."

In the interim, the decedent's mother, Tonya Andrews, was appointed Administrator of the estate ("the Administrator"). Soon thereafter, the Administrator brought suit on behalf of the estate against Amy Wray and her brother, alleging that they had wrongfully converted and disposed of virtually all of the decedent's property after his death, including the majority of his business assets. A judgment was obtained on June 22, 2012, in favor of the estate against Amy Wray and her brother in the amount of \$75,000 on the grounds of conversion of estate assets. That judgment was affirmed by this court on September 30, 2013, and it is now a final judgment.²

¹ By the time of trial, Amy Wray had remarried and changed her name to Amy Wray Stokes. For simplicity, we will refer to her in this case as "Amy Wray."

² *Andrews v. Sprinkle*, No. M2012-02242-COA-R3-CV, 2013 WL 5498093 (Tenn. Ct. App. Sept. 30, 2013).

On October 3, 2013, the Administrator commenced this action by filing a complaint against Ms. Wray and her sister-in-law, Melinda Wray (“the defendants”), to set aside the quitclaim deed from Amy Wray to her sister-in-law as a fraudulent conveyance intended to defeat the claims of the estate against Ms. Wray. The defendants denied that a fraudulent conveyance had occurred. Additionally, Amy Wray separately contended that the real property was immune from the claims of creditors of the estate pursuant to Tenn. Code Ann. § 56-7-202 and Tenn. Code Ann. § 56-7-203 because she used the life insurance proceeds to purchase the real property.

Amy Wray testified at trial that “the consideration” for the transfer of the real property to Melinda was that Melinda had agreed to care and provide for Amy’s children in the event of Amy’s death. The trial court found Amy Wray’s testimony on this issue “incredible at best,” and held that the conveyance to her sister-in-law was fraudulent. The trial court also found Amy Wray’s reliance on Tenn. Code Ann. § 56-7-202 and Tenn. Code Ann. § 56-7-203 was misplaced, explaining that the statutes exempt the life insurance proceeds from claims of the decedent’s creditors and not creditors of the surviving spouse. The court also explained that the claim at issue was a personal debt of Amy Wray, not a debt owed to creditors of the decedent’s estate.

The trial court ordered that the fraudulent conveyance from Amy Wray to Melinda Wray be set aside, and the estate was authorized to levy execution on the real property to the extent necessary to satisfy the \$75,000 judgment owed by Amy Wray to the estate.

This appeal followed. The defendants/appellants do not appeal the fraudulent conveyance ruling; instead, they contend the real estate Amy Wray purchased with the life insurance proceeds is immune from the estate’s claim, which is based on the \$75,000 judgment it obtained against Amy Wray.

As a separate issue, the Administrator contends this appeal is frivolous and seeks to recover just damages pursuant to Tenn. Code Ann. § 27-1-122.

STANDARD OF REVIEW

At issue is the interpretation of Tenn. Code Ann. § 56-7-202 and Tenn. Code Ann. § 56-7-203. Statutory interpretation is a question of law, which we review de novo, with no presumption of correctness given to the courts below. *Wallace v. State*, 121 S.W.3d 652, 656 (Tenn. 2003).

When interpreting statutory provisions, our goal is to “ascertain and effectuate the legislature’s intent.” *Kite v. Kite*, 22 S.W.3d 803, 805 (Tenn. 1997). When a statute’s language is unambiguous, we derive legislative intent from the statute’s plain language. *Carson Creek Vacation Resorts, Inc. v. Dep’t of Rev.*, 865 S.W.2d 1, 2 (Tenn. 1993).

ANALYSIS

I. TENN. CODE ANN. § 56-7-202 AND § 56-7-203

The material facts are not in dispute,³ and the dispositive issue in this appeal is whether the real property Ms. Wray purchased with life insurance proceeds paid to her upon the death of her husband is exempt from the claims of her creditor, the estate of her deceased husband.

Ms. Wray relies on Tenn. Code Ann. § 56-7-202 and Tenn. Code Ann. § 56-7-203 in her insistence that the real property is exempt. The statutes provide as follows:

Whenever a married person causes life insurance to be effected upon the person's spouse's life, it shall in no case be subject to the debts of the insured, but shall inure to the benefit of the surviving spouse and children, or surviving spouse or children, as the case may be; however, any life insurance proceeds payable to the testate estate shall pass under the dispositive provisions of the will, but shall not be subject to the debts of the deceased spouse unless specifically charged with the debts in the will.

Tenn. Code Ann. § 56-7-202 (emphasis added).

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 . . .*, whether or not the right to change the named beneficiary is reserved by or permitted to that person.

Tenn. Code Ann. § 56-7-203 (emphasis added).

The trial court found Ms. Wray's reliance upon the statutes to be misplaced because she confused the identity of "the person" referred to in the statute. The court noted that "the person" referred to in the statute is the *deceased* person, meaning the

³ This record does not contain a transcript of the evidence or a statement of the evidence. *See* Tenn. R. App. P. 24(c). In the absence of a transcript or statement of the evidence, there is a conclusive presumption that there was sufficient evidence before the trial court to support its judgment. *Outdoor Mgmt., LLC v. Thomas*, 249 S.W.3d 368, 377-78 (Tenn. Ct. App. 2007) (citing *McKinney v. Educator and Executive Insurers, Inc.*, 569 S.W.2d 829, 832 (Tenn. Ct. App. 1977)). This, however, does not preclude us from analyzing questions of law.

insured, whose life the policy was based upon, not the beneficiary. The court further noted that Tenn. Code Ann. § 56-7-203 does not state that the life insurance proceeds will be exempt from the creditors of the beneficiary to whom the proceeds are paid.⁴ The trial court went on to explain in its Memorandum Opinion: “Said another way, if the estate had a judgment against James Christopher Sprinkle, the proceeds would not be assailable by his creditors. In this instance the estate is a creditor of the beneficiary of the policy, not the decedent.”

Notably, the defendants concede on appeal that the statutes provide exemptions for life insurance proceeds from the claims of the *decedent's* creditors but do not provide exemptions from the *surviving spouse's* creditors. Nevertheless, they argue that the life insurance proceeds, or some portion thereof, will be used to pay the cost of administering the estate, attorney's fees, and the claims of the decedent's creditors.⁵ Therefore, they contend, allowing the estate to obtain control of the property would allow the Administrator to use the life insurance proceeds to pay the decedent's creditors, which is contrary to the statute. We find no merit to this argument for several reasons.

For one, the defendants cite to no authority in support of their position. To the contrary, it is well recognized in Tennessee that life insurance proceeds in the hands of a surviving spouse are *not* exempt from the claims of creditors of the surviving spouse. *See Sam Levy & Co. v. Davis*, 142 S.W. 1118 (Tenn. 1911); *Harvey v. Harrison*, 14 S.W. 1083 (Tenn. 1891); *In Re Day*, 176 F. 377 (M.D. Tenn. 1909). In fact, the defendants expressly acknowledge such in their brief, relying on *In re Huffines*, 57 B.R. 740, 742 (M.D. Tenn. 1985):

These old sections of Tennessee law (Tenn. Code Ann. § 56-7-201 and 202 were part of the Code of 1858) generally provide that life insurance payable to a spouse or children of a decedent passes to such person without being subject to the debts of the decedent. Tennessee cases construing this exemption have held that it clearly benefits the surviving spouse, exempting all insurance proceeds from the claims against the spouse existing at the date of death. However, equally venerable Tennessee case

⁴ The only exception here would be if the decedent's estate was the beneficiary. *See* Tenn. Code Ann. § 56-7-202 (stating “any life insurance proceeds payable to the testate estate shall pass under the dispositive provisions of the will, but shall not be subject to the debts of the deceased spouse unless specifically charged with the debts in the will”).

⁵ There are several flaws with this argument. For one, there is no evidence in this record to support this contention. Nevertheless, for the sake of discussion, we acknowledge Ms. Wray's contention that the claims of the estate's creditors total a mere \$7,000. This begs the question: Why should Ms. Wray's real property be exempt from a \$75,000 judgment if only \$7,000 would be used to pay the creditors of her deceased husband's estate?

law holds that the proceeds of life insurance policies in the hands of a spouse *are not exempt from claims of creditors of that spouse*. That is, creditors of the spouse of a decedent may reach life insurance proceeds payable to such spouse on account of the death of the decedent to pay debts owed by the spouse.

In re Huffines, 57 B.R. at 742 (internal citations omitted) (emphasis added).

The obligation at issue here, the \$75,000 judgment, is the personal obligation of Amy Wray, the surviving spouse, and it is not an obligation of the decedent or his estate. Moreover, and somewhat ironically, it is the decedent's estate that is the creditor, and the judgment debtor is the surviving spouse. As such, the exemption afforded in the statutes does not apply.

For the foregoing reasons, we affirm the judgment of the trial court in all respects.

II. FRIVOLOUS APPEAL

The Administrator contends this appeal is frivolous and seeks to recover just damages pursuant to Tenn. Code Ann. § 27-1-122.

A frivolous appeal is one that is “devoid of merit” and that “has no reasonable chance of succeeding.” *Young v. Barrow*, 130 S.W.3d 59, 67 (Tenn. Ct. App. 2003). Appellate courts are authorized by statute to award damages against an appellant when an appellee is required to defend a frivolous appeal:

When it appears to any reviewing court that the appeal from any court of record was frivolous or taken solely for delay, the court may, either upon motion of a party or of its own motion, award just damages against the appellant, which may include but need not be limited to, costs, interest on the judgment, and expenses incurred by the appellee as a result of the appeal.

Tenn. Code Ann. § 27-1-122.

We find no basis upon which the defendants could have prevailed; therefore, it was a frivolous appeal. Accordingly, we remand to the trial court to award “just damages” against the appellants, Amy Wray and Melinda Wray, “which may include but need not be limited to, costs, interest on the judgment, and expenses incurred by the appellee as a result of the appeal.” *Id.*

IN CONCLUSION

The judgment of the trial court is affirmed in all respects, and this matter is remanded with costs of appeal assessed against Amy Wray and Melinda Wray, jointly and severally.

FRANK G. CLEMENT, JR., JUDGE