

Case Name: In re Ricky Joe Jones, Cheryl Ann Jones, Debtors
Date Decided: January 25th, 2011
Originally Filed in: Kansas (federal)
Decided by: U.S. Court of Appeals, Tenth Circuit(Bankruptcy) (Federal)
Court: United States Bankruptcy Court for the District of Kansas
Judge: Judge Berger
Citation: 446 B.R 466

Background:

Ricky Joe Jones ("Jones") was severely injured while employed by Kansas City Southern Railway ("KCS"). He brought a FELA claim in 1987 alleging KCS was negligent and sought damages for a permanent disability. The parties ultimately settled the suit, whereby KCS agreed to pay Jones monthly payments of \$700, and increasing lump sum payments every 5 years. Per the settlement agreement, payments owed to Jones pursuant to the Railroad Retirement Act ("RRA"), 45 U.S.C. Â§ 231a were reduced, and Jones waived his seniority rights and future employment with KCS. In 1998, Jones and his spouse ("Debtors") sold the rights to all of the lump sum payments with the exception of one \$200,000 payment due in 2023. In 2001, Debtors filed for bankruptcy. Debtors informed their bankruptcy council of the \$200,000 payment, but failed to disclose it for the purposes of the bankruptcy proceedings. In 2003, Debtors attempted to sell the rights to the \$200,000 payment. The potential buyer informed the bankruptcy Trustee and the Trustee filed a motion to reopen the bankruptcy proceedings. The Trustee sought to include the \$200,000 payment into the schedule of assets available to creditors. In response, Debtors claimed the remaining payment was exempt. The Trustee objected to Debtors' exemption. Trustee claims that the settlement was for personal injury, which proceeds are not exempt under Kansas state law. Additionally, it claims the exemptions for disability benefits and employment-related benefits under the bankruptcy code do not apply to Debtors' settlement. Debtors argue that the injury disabled Jones, thus the settlement should be exempt because it was a disability benefit under the bankruptcy code.

Issue:

Is the remaining settlement amount exempt from the bankruptcy proceedings?

Overall Issues Discussed or Touched Upon in this Case:

- *Applicability of FELA at Issue*

Held:

Sections 522(d)(10)(C) and 522(d)(10)(E) of the United States Bankruptcy Code exempt disability benefits and employment-related benefits from property available to creditors in bankruptcy proceedings. These exemptions are granted in an effort to provide the debtor with a fresh start and to keep families from destitution. Courts liberally construe these exemptions in

favor of the debtor, and the burden is on the trustee to prove the exemption is not properly claimed. Here, to determine whether the remaining \$200,000 settlement payment was exempt from the bankruptcy proceedings, the Court examined the nature and purpose of the settlement. The record shows that per the settlement agreement with KCS, Jones reimbursed funds he received under the RRA and funds he received under an insurance policy pursuant to his union's collective bargaining agreement. Additionally, the record shows that in exchange for the settlement, Jones contracted to disclaim his position and seniority rights at KCS and enter early retirement. In light of the above facts, the Court found that the settlement was a hybrid of a "personal injury settlement, a disability benefit, and an employer-funded disability pension." The Court held that the entire settlement was exempt under Sections 522(d)(10)(C) and 522(d)(10)(E) reasoning Jones had transferred his right to disability payments under the RRA and collective bargaining agreement to the settlement payments; the settlement was in lieu of what he would have received via disability benefits and thus exempt from the bankruptcy proceedings. ORDERED.

Comments: