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In re Kapsinow, 220 A.3d 1231 (R.I. 2019)

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Bankruptcy Law. *In re Kapsinow*, 220 A.3d 1231 (R.I. 2019). A bankruptcy debtor may claim certain state law exemptions under Rhode Island General Laws section 9-26-4. The Court examined section 9-26-4(11), drawing instruction from language in § 408 of the Internal Revenue Code, to determine whether inherited Individual Retirement Annuities (IRA) from non-spouse may be exempted under state bankruptcy law. After analyzing the relevant statutes, the Court found that the language of section 9-26-4(11) exempts an inherited IRA from a non-spouse.

FACTS AND TRAVEL

On October 31, 2016, Lynette Kapsinow (Kapsinow), the debtor, filed a voluntary bankruptcy petition.¹ Stacy B. Ferrara (Ferrara) presided over the matter as the trustee.² Pursuant to 11 U.S.C. § 522(b) a debtor may choose state exemptions, which Kapsinow did.³ This option was available to Kapsinow because Rhode Island has not opted out of the federal bankruptcy exemption scheme; as such, a debtor has the choice between federal or state exemptions.⁴ In Kapsinow’s bankruptcy petition, she attempted to exempt an inherited IRA totaling \$84,962.88, which was possessed by American Century Investments.⁵ Kapsinow claimed the exemption was valid under Rhode Island General Laws section 9-26-4(11).⁶ That statute lays out what “goods and property” shall be exempted from “attachment on any warrant of distress or on any other writ, original, mesne, or judicial.”⁷ In pertinent part, the

1. *In re Kapsinow*, 220 A.3d 1231, 1232–33 (R.I. 2019).

2. *Id.* at 1233.

3. *Id.*

4. *See id.* (citing *In re Strandberg*, 253 B.R. 584, 586 (Bankr. D.R.I. 2000)).

5. *Id.*

6. *Id.*

7. *Id.* at 1234.

statute exempts “an individual retirement account or individual retirement annuity as defined in the Internal Revenue Code, 26 U.S.C. § 408.”⁸ Ferrara objected to exemption of the inherited IRA.⁹

The IRA Kapsinow sought to exempt was inherited from her deceased mother.¹⁰ When Kapsinow’s mother passed away, she owned an IRA with Aviva Life and Annuity Company of which Kapsinow was the beneficiary.¹¹ The account was a “qualified retirement account” under § 408.¹² Kapsinow completed an annuity claim form for her mother’s IRA seeking to have the proceeds transferred to an inherited IRA.¹³ Aviva Life complied with Kapsinow’s request.¹⁴ The facts established that following her mother’s death, Kapsinow had access to all of the funds in the inherited IRA for any reason.¹⁵ Kapsinow could not contribute to the inherited IRA and had to withdraw minimum distributions.¹⁶ Additionally, the IRA was required to be separate from any of Kapsinow’s other accounts.¹⁷ The record showed that Kapsinow abided by these requirements.¹⁸

On April 12, 2018, the Bankruptcy Court certified to the Rhode Island Supreme Court the following issue: “Whether a debtor may claim an exemption in an inherited Individual Retirement Annuity, including one inherited from a non-spouse, pursuant to R.I. Gen. Laws § 9-26-4(11).”¹⁹

ANALYSIS AND HOLDING

A. *Majority Opinion*

Justice Robinson delivered the Court’s opinion. The Court noted that questions of statutory construction are reviewed under

8. *Id.*

9. *Id.* at 1233.

10. *Id.*

11. *Id.*

12. *Id.*

13. *Id.*

14. *See id.*

15. *Id.*

16. *Id.*

17. *Id.*

18. *See id.*

19. *Id.*

a *de novo* standard.²⁰ The Court began by laying out its methodology for questions of statutory construction: “if a statute is clear and unambiguous we are bound to ascribe the plain and ordinary meaning of the words of the statute and our inquiry is at an end.”²¹ The Court asserted that only when a statute is susceptible to more than one meaning does the Court look to determine legislative intent as a method of statutory construction.²² The Court added that it would not “construe a statute to reach an absurd result.”²³

The Court then analyzed the statute, which reads, in pertinent part:

The following goods and property shall be exempt from attachment on any warrant of distress or on any other writ, original, mesne, or judicial:

. . . .

(11) An individual retirement account or individual retirement annuity as defined in the Internal Revenue Code, 26 U.S.C. §§ 408 and 408A, and the payments or distributions from such an account or annuity, except that this exemption does not apply to any of the following:

(i) An order of a court pursuant to a judgment of divorce or separate maintenance.

(ii) An order of a court concerning child support.

(iii) Contributions to an individual retirement account, or premiums on an individual retirement annuity, including the earnings or benefits from those contributions or premiums that constitute an excess contribution within the meaning of Section 4973 of the Internal Revenue Code, [26 U.S.C. § 4973].²⁴

The Court held that section 9-26-4(11) unambiguously allowed for the exemption of an IRA, if in accordance with § 408.²⁵ Having

20. *Id.*

21. *Id.* at 1234 (quoting *Olsen v. DeMayo*, 210 A.3d 431, 435 (R.I. 2019)).

22. *See id.*

23. *Id.* (quoting *Mendes v. Factor*, 41 A.3d 994, 1002 (R.I. 2012)).

24. *Id.* (quoting 9 R.I. GEN. LAWS § 9-26-4(11)).

25. *Id.*

found no ambiguities in section 9-26-4(11), the Court turned to whether § 408 defined an inherited IRA.²⁶

In analyzing §§ 408(a) and (b), the Court found definitions for both “individual retirement account” and “individual retirement annuity.”²⁷ Additionally, § 408(d)(3)(C)(ii) provided guidance as to when an “individual retirement account” or “individual retirement annuity” should be characterized as “inherited.”²⁸ The relevant part of § 408(d)(3)(C)(ii) reads:

An individual retirement account or individual retirement annuity shall be treated as inherited if—

(I) the individual for whose benefit the account or annuity is maintained acquired such account by reason of the death of another individual, and

(II) such individual was not the surviving spouse of such other individual.²⁹

The Court noted that § 408(d)(3)(C)(ii) applied to the rollover of IRAs for tax purposes.³⁰ As such, the Court next turned to determining whether § 408(d)(3)(C)(ii) constituted a definition of inherited IRAs.³¹

The Court concluded that § 408 was unambiguous.³² Moreover, the Court asserted that § 408 clearly defined inherited IRAs under § 408(d)(3)(C)(ii).³³ The Court reasoned that the General Assembly sought to recognize an exemption for all IRAs defined within § 408.³⁴ The Court pointed to the fact that the General Assembly could have clearly restricted IRA exemptions to any specific category found within § 408, but did not do so.³⁵ The Court elaborated that it was not its role to “determine whether a statute enacted by the General Assembly ‘comports with [the Court’s] own

26. *Id.*

27. *Id.*

28. *Id.*

29. *Id.* (quoting 26 U.S.C. § 408(d)(3)(C)(ii)).

30. *Id.*

31. *Id.*

32. *Id.* at 1234–35.

33. *Id.* at 1235.

34. *Id.*

35. *Id.*

ideas of justice, expediency or sound public policy.”³⁶ As such, the Court was constrained by the statute before it.³⁷ The Court went on to summarize that since the language of the statute was clear and unambiguous, it must only apply the plain meaning of the words.³⁸ The Court also noted that its interpretation did not lead to an absurd result because other states had expressly exempted inherited IRAs.³⁹

In its analysis, the Court commented on a U.S. Supreme Court case raised by the trustee, *Clark v. Rameker*.⁴⁰ The Court noted that in *Clark*, the U.S. Supreme Court held that under federal bankruptcy statutes, “retirement funds” did not encompass inherited IRAs.⁴¹ Here, the Court highlighted that *Clark* was instructive of policy considerations, but not controlling, and distinguished it from the present case—*Clark* dealt with a federal statute containing the word “retirement funds,” while the present case deals with different terminology found within a state statute.⁴² Moreover, state bankruptcy statutes may exceed the protections found in federal bankruptcy statutes.⁴³ As such, the Court held that under section 9-26-4(11), a bankruptcy debtor could exempt an inherited IRA.⁴⁴

B. *Dissenting Opinion*

Justice Indeglia delivered a dissenting opinion, joined by Chief Justice Suttell, asserting that section 9-26-4(11) unambiguously prevented a bankruptcy debtor from exempting an inherited IRA.⁴⁵ The dissent deviated from the majority’s statutory construction methodology, reasoning that the Court’s “ultimate goal is to give effect to the purpose of the [statute] as intended by the Legislature.”⁴⁶ Justice Indeglia acknowledged that if the language

36. *Id.* (quoting *State v. LeFebvre*, 198 A.3d 521, 527 (R.I. 2019)).

37. *Id.*

38. *Id.*

39. *Id.* at 1236.

40. *Id.* (citing *Clark v. Rameker*, 573 U.S. 122 (2014)).

41. *Id.* (citing *Clark*, 573 U.S. at 124).

42. *Id.*

43. *Id.*

44. *Id.* at 1237.

45. *Id.*

46. *Id.* (quoting *In re B.H.*, 194 A.3d 260, 264 (R.I. 2018)).

of statute is clear and unambiguous, the Court “must interpret the statute literally,” making sure to apply the ordinary meaning of the words.⁴⁷ He highlighted that each word or provision in a statute has significant meaning; as such, the Court must give due consideration to each word or provision.⁴⁸

Justice Indeglia provided three reasons why the statute unambiguously excluded inherited IRAs from exemption.⁴⁹ First, the statute never used the term “inherited.”⁵⁰ Furthermore, the only support found for the exemption applying to inherited IRAs appeared in the Internal Revenue Code, § 408(d)(3)(C)(ii), which deals with “tax treatment of distributions.”⁵¹ Second, the inherent nature of inherited IRAs is far too dissimilar from IRAs.⁵² As such, the Court should not implicitly add inherited IRAs to the language of section 9-26-4(11).⁵³

Lastly, Justice Indeglia reasoned that the policy considerations supporting bankruptcy exemptions warranted the exclusion of inherited IRAs.⁵⁴ This conclusion was largely predicated on the U.S. Supreme Court’s ruling in *Clark*.⁵⁵ Justice Indeglia reasoned that, although the terminology in the federal statute at issue in *Clark* differed from the Rhode Island statute, both statutes referred to § 408.⁵⁶ Justice Indeglia concluded that the policy underlying the decision in *Clark* to exclude inherited IRAs from exemption should be followed in the present case.⁵⁷ In *Clark*, the U.S. Supreme Court reasoned that inherited IRAs did not make up the debtor’s personal retirement.⁵⁸ The Court in *Clark* rested its decision on the policy consideration that bankruptcy exemptions of this sort were only applicable to retirement funds.⁵⁹ Furthermore, the *Clark* Court asserted that the legislative intent behind

47. *Id.* (quoting *State v. Santos*, 870 A.2d 1029, 1032 (R.I. 2005)).

48. *Id.*

49. *Id.*

50. *Id.*

51. *Id.*

52. *Id.*

53. *Id.*

54. *Id.*

55. *Id.* at 1239–40.

56. *Id.* at 1239.

57. *Id.*

58. *Id.* at 1239–40 (citing *Clark v. Rameker*, 573 U.S. 122, 124 (2014)).

59. *Id.* at 1240 (citing *Clark*, 573 U.S. at 126.).

bankruptcy exemptions is “to provide a debtor ‘with the basic necessities of life’ so that she ‘will not be left destitute and a public charge.’”⁶⁰ Justice Indeglia concluded that, given the policy considerations discussed in *Clark*, the purpose of bankruptcy exemptions for retirement funds is to provide a “fresh start” for debtors by protecting their retirement fund from creditors.⁶¹ Justice Indeglia closed his dissent by expressing concern that a contrary interpretation would result not in a “fresh start,” but rather, a “windfall” to the debtor.⁶²

COMMENTARY

This case illuminates the contrasting views of what the Court’s role should be in deciding questions of statutory construction. The majority rigidly grounded its opinion in the “clear and unambiguous” standard of statutory interpretation while the dissent employed a more flexible approach, considering the policy behind the statute. It is clear that the majority believed it gleaned enough support for its conclusion in the plain meaning of the words found within both the Rhode Island statute and federal bankruptcy statute. The majority deferred consideration of *Clark* and the policies underlying bankruptcy exemptions because under its methodology, a clear and unambiguous statute requires no further inquiry. The majority may have taken an overbroad approach in concluding that the definition of inherited IRAs found in a provision concerning rollover treatment of IRAs for tax purposes sufficiently answered affirmatively that the General Assembly intended to exempt all IRAs grounded in § 408. The majority’s approach exhibits judicial restraint, and perhaps it is best for the Court to refrain from treading into legislative policies when a plain meaning can be gleaned from the statute. As the majority pointed out, the General Assembly made no mention of restricting the exemption of certain IRAs. Perhaps it is preferable to leave any sort of change to the legislature, thus limiting the Court’s role to interpreting rather than justifying.

On the other hand, the dissent persuasively argued that the outcome from exempting inherited IRAs contradicted the purpose

60. *Id.* at 1239 (quoting *Clark*, 573 U.S. at 129 n.3).

61. *Id.* at 1240.

62. *Id.*

of bankruptcy exemption statutes. The legislative intent behind bankruptcy statutes proffered in *Clark* supports the dissent's conclusion. The danger of a windfall is surely evident when allowing the exemption of an inherited IRA. Meanwhile, the danger of a windfall is alleviated when a debtor is allowed to protect his or her own personal retirement from creditors in order to recover from bankruptcy.

Inevitably, discerning whether a correct outcome resulted is predicated on what one views as the Court's role. Policy considerations are instructive, and the Court should seek to interpret a statute in a manner that the legislature intended. Those who are elected to the legislature may enact any statutory changes deemed necessary while the Court should serve its role as an interpreter, not a drafter.

CONCLUSION

The Rhode Island Supreme Court held that a bankruptcy debtor may exempt an inherited IRA under section 9-26-4(11). The Court held that the language of the relevant statutes clearly and unambiguously supported this conclusion. As such, the Court applied the plain meaning of the words within the statute, without inquiry into policy considerations.

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