



19006246

E.B.

|  |                 |
|--|-----------------|
| OMB APPROVAL                                     |                 |
| OMB Number:                                      | 3235-0123       |
| Expires:   | August 31, 2020 |
| Estimated average burden hours per response..... | 12.00           |

**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

Mail Stop  
SECURITIES  
MAR 03 2018  
Washington D.C.  
406

|                 |
|-----------------|
| SEC FILE NUMBER |
| 8-46433         |

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 01/01/2018 AND ENDING 12/31/2018  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: **GBS Retirement Services, Inc.**

|                   |
|-------------------|
| OFFICIAL USE ONLY |
| FIRM I.D. NO.     |

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

**2850 Golf Road**

(No. and Street)

**Rolling Meadows**

**IL**

**6008**

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Beth Marren O'Reilly 630.694.5174

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

**Ernst & Young LLP**

(Name - if individual, state last, first, middle name)

**155 North Wacker**

**Chicago**

**IL**

**60606**

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

Certified Public Accountant

Public Accountant

Accountant not resident in United States or any of its possessions.

**FOR OFFICIAL USE ONLY**

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (11-05)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

RMS

OATH OR AFFIRMATION

I, Diana Butts, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of GBS Retirement Services, Inc. of December, 2018, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



Jennifer Jaconette
Notary Public
State of Ohio
My Commission Expires
5-22-22

Handwritten signature of Jennifer Jaconette

Signature

President & COO

Title

Handwritten signature of Jennifer Jaconette
Notary Public

This report \*\* contains (check all applicable boxes):

- (a) Facing Page.
(b) Statement of Financial Condition.
(c) Statement of Income (Loss) or, if there is other comprehensive income in the period(s) presented, a Statement of Comprehensive Income (as defined in §210.1-02 of Regulation S-X).
(d) Statement of Changes in Financial Condition.
(e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
(f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
(g) Computation of Net Capital.
(h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
(i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
(j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
(k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
(l) An Oath or Affirmation.
(m) A copy of the SIPC Supplemental Report.
(n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).



Building a better  
working world

Ernst & Young LLP  
155 N Wacker Dr.  
Chicago, IL 60606

Tel: +1 312 879 2000  
Fax: +1 312 879 4000  
ey.com

## Report of Independent Registered Public Accounting Firm

The Stockholder and Management of GBS Retirement Services, Inc.

We have reviewed management's statements, included in the accompanying Exemption Report, in which (1) GBS Retirement Services, Inc. (the Company) (a wholly owned subsidiary of Gallagher Benefit Services, Inc., which is a wholly owned subsidiary of Arthur J. Gallagher & Co.) identified the following provisions of 17 C.F.R. § 15c3-3(k) under which the Company claimed an exemption from 17 C.F.R. § 240.15c3-3 (k)(1) (the "exemption provision") and (2) the Company stated that it met the identified exemption provision in 17 C.F.R. § 240.15c3-3 (k) throughout the most recent fiscal year ended December 31, 2018, without exception. Management is responsible for compliance with the exemption provisions and its statements.

Our review was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States) and, accordingly, included inquiries and other required procedures to obtain evidence about the Company's compliance with the exemption provisions. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on management's statements. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to management's statements referred to above for them to be fairly stated, in all material respects, based on the provisions set forth in paragraph (k)(1) of Rule 15c3-3 under the Securities Exchange Act of 1934.

This report is intended solely for the information and use of the Stockholder, management, the SEC, FINRA, other regulatory agencies that rely on Rule 17a-5 under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and other recipients specified by Rule 17a-5(d)(6) and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst & Young LLP*

February 27, 2019



Building a better  
working world

Ernst & Young LLP  
155 N Wacker Dr.  
Chicago, IL 60606

Tel: +1 312 879 2000  
Fax: +1 312 879 4000  
ey.com

## **Report of Independent Registered Public Accounting Firm on Applying Agreed-Upon Procedures**

To the Stockholder and Management of GBS Retirement Services, Inc.

We have performed the procedures enumerated below, which were agreed to by the Board of Directors, management of GBS Retirement Services, Inc., (the Company), and the Securities Investor Protection Corporation (SIPC), as set forth in the Series 600 Rules of SIPC, solely to assist the specified parties in evaluating the Company's schedule of assessments and payments is in accordance with the applicable instructions of the General Assessment Reconciliation (Form SIPC-7) for the fiscal year ended December 31, 2018. The Company's management is responsible for the Company's compliance with those requirements. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and our findings are as follows:

1. Compared the assessment payments made in accordance with the General Assessment Payment Form (Form SIPC-6) and applied to the General Assessment calculation on Form SIPC-7 with respective cash disbursement record entries. No findings were found as a result of applying the procedure.
2. Compared the amounts reported in the audited financial statements required by SEC Rule 17a-5 with the amounts reported in Form SIPC-7 for the fiscal year ended December 31, 2018. No findings were found as a result of applying the procedure.
3. Compared any adjustments reported in Form SIPC-7 with supporting schedules and working papers supporting the adjustments. No findings were found as a result of applying the procedure.
4. Recalculated the arithmetical accuracy of the calculations reflected in Form SIPC-7 and in the schedules and working papers supporting the adjustments. No findings were found as a result of applying the procedure.

This agreed-upon procedures engagement was conducted in accordance with the interim attestation standards of the Public Company Accounting Oversight Board (United States) and the attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or a review, the objective of which would be the expression of an opinion or conclusion, respectively, on whether GBS Retirement Services, Inc.'s schedule of assessments and payments is in accordance with the applicable instructions of the General Assessment Reconciliation (Form SIPC-7) for the fiscal year ended December 31, 2018.

Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst + Young LLP*

February 27, 2019



Building a better  
working world

Ernst & Young LLP  
155 N Wacker Dr.  
Chicago, IL 60606

Tel: +1 312 879 2000  
Fax: +1 312 879 4000  
ey.com

## Report of Independent Registered Public Accounting Firm

To the Stockholder and Management of GBS Retirement Services, Inc.

### Opinion on the Financial Statements

We have audited the accompanying statement of financial condition of GBS Retirement Services, Inc. (the Company) (a wholly owned subsidiary of Gallagher Benefit Services, Inc., which is a wholly owned subsidiary of Arthur J. Gallagher & Co.) as of December 31, 2018, the related statements of income, changes in stockholder's equity and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### Supplemental Information

The accompanying information contained in Schedules I, II, and III has been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. Such information is the responsibility of the Company's management. Our audit procedures included determining whether the information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information. In forming our opinion on the information, we evaluated whether such information, including its form and content, is presented in conformity with Rule 17a-5 under

the Securities Exchange Act of 1934. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Ernst + Young LLP*

We have served as the Company's auditor since at least 2000, but we are unable to determine the specific year.

Chicago, Illinois

February 27, 2019

FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION

GBS Retirement Services, Inc.  
Year Ended December 31, 2018  
With Report of Independent Registered Public Accounting Firm

GBS Retirement Services, Inc.

Financial Statements and Supplemental Information

Year Ended December 31, 2018

**Contents**

|  |    |
|--|----|
| Report of Independent Registered Public Accounting Firm.....               | 1  |
| <b>Financial Statements</b>  |    |
| Statement of Financial Condition .....                                     | 3  |
| Statement of Income .....  | 4  |
| Statement of Changes in Stockholder's Equity .....                         | 5  |
| Statement of Cash Flows .....  | 6  |
| Notes to Financial Statements.....   | 7  |
| <b>Supplemental Information</b>  |    |
| Schedule I – Computation of Net Capital and Aggregate Indebtedness         |    |
| Under Rule 15c3-1 .....  | 14 |
| Schedule II – Computation for Determination of Reserve Requirements        |    |
| Under SEC Rule 17a-5(d).....   | 15 |
| Schedule III – Information Relating to Possession or Control of Securities |    |
| Under SEC Rule 17a-5(d) .....  | 16 |



Ernst & Young LLP  
155 N Wacker Dr.  
Chicago, IL 60606

Tel: +1 312 879 2000  
Fax: +1 312 879 4000  
ey.com

## Report of Independent Registered Public Accounting Firm

To the Stockholder and Management of GBS Retirement Services, Inc.

### **Opinion on the Financial Statements**

We have audited the accompanying statement of financial condition of GBS Retirement Services, Inc. (the Company) (a wholly owned subsidiary of Gallagher Benefit Services, Inc., which is a wholly owned subsidiary of Arthur J. Gallagher & Co.) as of December 31, 2018, the related statements of income, changes in stockholder's equity and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### **Supplemental Information**

The accompanying information contained in Schedules I, II, and III has been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. Such information is the responsibility of the Company's management. Our audit procedures included determining whether the information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information. In forming our opinion on the information, we evaluated whether such information, including its form and content, is presented in conformity with Rule 17a-5 under

the Securities Exchange Act of 1934. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Ernst + Young LLP*

We have served as the Company's auditor since at least 2000, but we are unable to determine the specific year.

Chicago, Illinois

February 27, 2019

GBS Retirement Services, Inc.

Statement of Financial Condition

December 31, 2018

**Assets**

|   |                      |
|---|----------------------|
| Cash and cash equivalents   | \$ 41,085,765        |
| Investments, trading, at fair value                               | 22,980               |
| Interest receivable   | 3,211                |
| Fees receivable   | 3,118,535            |
| Commissions receivable  | 381,695              |
| Income tax receivable - current                                   | 366,255              |
| Deferred tax asset, net   | 35,078               |
| Fixed assets – at cost, less accumulated depreciation of \$16,967 | 13,083               |
| Other assets  | 152,241              |
|   | <u>\$ 45,178,843</u> |

**Liabilities and stockholder's equity**

|                               |                   |
|-------------------------------|-------------------|
| Accounts payable – affiliates | \$ 27,870,048     |
| Other liabilities             | 516,261           |
|                               | <u>28,386,309</u> |

Stockholder's equity:

|   |                      |
|---|----------------------|
| Common stock, \$1 par value – authorized, issued,<br>and outstanding –1,000 shares (owned by<br>Gallagher Benefit Services, Inc.) | 1,000                |
| Capital in excess of par value  | 788,968              |
| Retained earnings   | 16,002,566           |
|   | <u>16,792,534</u>    |
|   | <u>\$ 45,178,843</u> |

*See accompanying notes.*

GBS Retirement Services, Inc.

Statement of Income

Year Ended December 31, 2018

|                                |                            |
|--------------------------------|----------------------------|
| <b>Revenues</b>                |                            |
| Commissions                    | \$ 22,884,246              |
| Fees                           | 17,288,240                 |
| Investment income              | <u>382,037</u>             |
|                                | 40,554,523                 |
| <b>Expenses</b>                |                            |
| Professional fees              | 23,047,052                 |
| Salaries and employee benefits | 1,590,232                  |
| Other operating expenses       | <u>6,074,543</u>           |
| Total expenses                 | <u>30,711,827</u>          |
| Income before income taxes     | <u>9,842,696</u>           |
| Income tax expense:            |                            |
| Current                        | 2,481,694                  |
| Deferred                       | <u>3,817</u>               |
|                                | <u>2,485,511</u>           |
| Net income                     | <u><u>\$ 7,357,185</u></u> |

*See accompanying notes.*

GBS Retirement Services, Inc.

Statement of Changes in Stockholder's Equity

Year Ended December 31, 2018

|   | <b>Common<br/>Stock</b> | <b>Capital in<br/>Excess of<br/>Par Value</b> | <b>Retained<br/>Earnings</b> | <b>Total</b>        |
|---|-------------------------|---|------------------------------|---------------------|
| Balance at January 1, 2018                                    | \$ 1,000                | \$ 788,968                                    | \$ 8,675,915                 | \$ 9,465,883        |
| Dividend paid to<br>Gallagher Benefit Services, Inc.          | -                       | -   | (45,738)                     | (45,738)            |
| Capital contribution from<br>Gallagher Benefit Services, Inc. | -                       | -   | 15,204                       | 15,204              |
| Net income  | -                       | -   | 7,357,185                    | 7,357,185           |
| Balance at December 31, 2018                                  | <u>\$ 1,000</u>         | <u>\$ 788,968</u>                             | <u>\$16,002,566</u>          | <u>\$16,792,534</u> |

*See accompanying notes.*

GBS Retirement Services, Inc.

Statement of Cash Flows

Year Ended December 31, 2018

**Operating activities**

|   |                 |
|---|-----------------|
| Net income  | \$ 7,357,185    |
| Adjustments to reconcile net income to net cash provided by operating activities: |                 |
| Deferred income tax expense   | 10,774          |
| Depreciation  | 5,149           |
| Net cash flows from investments   | 15,412          |
| Change in fees receivable   | (205,861)       |
| Change in commissions receivable  | (150,701)       |
| Change in amounts due to/from affiliates  | 8,677,326       |
| Change in other assets  | (28,465)        |
| Change in interest receivable   | (1,617)         |
| Change in income taxes receivable from/payable to Arthur J. Gallagher & Co.       | (821,771)       |
| Change in other liabilities   | <u>(58,488)</u> |
| Net cash provided by operating activities   | 14,798,943      |

**Investing activities**

|                                       |                 |
|---------------------------------------|-----------------|
| Purchases of fixed assets             | <u>(10,185)</u> |
| Net cash used in investing activities | <u>(10,185)</u> |

**Financing activities**

|  |                 |
|--|-----------------|
| Dividends paid to Gallagher Benefit Services, Inc.         | (45,738)        |
| Capital contribution from Gallagher Benefit Services, Inc. | <u>15,204</u>   |
| Net cash used in financing activities                      | <u>(30,534)</u> |

|  |                      |
|--|----------------------|
| Net increase in cash and cash equivalents      | 14,758,224           |
| Cash and cash equivalents at beginning of year | <u>26,327,541</u>    |
| Cash and cash equivalents at end of year       | <u>\$ 41,085,765</u> |

*See accompanying notes.*

GBS Retirement Services, Inc.

Notes to Financial Statements

December 31, 2018

**1. Summary of Significant Accounting Policies**

**Nature of Operations and Basis of Presentation**

GBS Retirement Services, Inc. (the Company) was incorporated in 1993, and is a wholly owned subsidiary of Gallagher Benefit Services, Inc. (GBS), which is a wholly owned subsidiary of Arthur J. Gallagher & Co. (Gallagher). The Company is a broker, consultant, and Financial Industry Regulatory Authority registered broker-dealer. The Company specializes in providing retirement services to not-for-profit entities, corporations, and publicly traded entities. Approximately 36% of the Company's commission revenue was collectively received from four insurance carriers. GBS Retirement Services, Inc. operates as a single segment.

The Company has a Marketing and Services Agreement (the Agreement) with NFP Securities, Inc. (NFP). Under the terms of the Agreement, employees of Gallagher are registered representatives of NFP. These representatives have access to products, materials, and services offered by NFP. In return, the Company pays NFP a percentage of its dealer commissions, which is recorded as a reduction in commission revenues.

In the preparation of the Company's financial statements as of December 31, 2018, management evaluated all material subsequent events or transactions that occurred after the balance sheet date through February 27, 2019, the date on which the financial statements were available to be issued, for potential recognition in its financial statements and/or disclosure in the notes thereto. No additional matters were noted.

**Use of Estimates**

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known that could impact the amounts reported and disclosed herein.

**Cash and Cash Equivalents**

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At December 31, 2018, the Company had all of its cash and cash equivalents invested at two financial institutions.

## GBS Retirement Services, Inc.

### Notes to Financial Statements (continued)

#### 1. Summary of Significant Accounting Policies (continued)

##### Investments and Investment Income

Investments consisting of fixed-maturity U.S. government agency securities and U.S. government mortgage-backed securities are recorded at fair value on a recurring basis and are classified as trading. Changes in the fair value of investments are included in investment income in the statement of income. Fair value is based on the fair value hierarchy described in Note 3.

##### Revenue Recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, Revenue from Contracts with Customers, as a new Accounting Standards Codification Topic 606 (ASC Topic 606), which supersedes nearly all existing revenue recognition guidance under GAAP. The core principal of the new accounting guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract, where applicable. The standard was effective for the Company for annual periods beginning January 1, 2018. The Company adopted ASC Topic 606 as of January 1, 2018. An assessment to determine the impacts of the new accounting standard was performed. Based on the Company's assessment, the adoption of ASC Topic 606 did not have a material impact on the Company's financial statements.

##### Professional Fees and Other Expenses

Professional fees represent expenses incurred by GBS while providing consulting and client relationship services on behalf of the Company. The cost of these services is based on an allocation of the GBS consultants' salaries, bonus, benefits, and travel and entertainment expenses relative to time spent performing consulting services for the Company. Other expenses incurred by GBS and allocated to the Company include amortization of assets utilized in the generation of revenue earned by the Company.

##### Income Taxes

The Company is included in the consolidated federal income tax return of Gallagher. The Company's income tax provision is the amount that it would have incurred on a separate company tax return basis. Deferred income taxes represent the net tax effects of temporary differences between amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. All income taxes are settled through an intercompany account with Gallagher.

## GBS Retirement Services, Inc.

### Notes to Financial Statements (continued)

#### 1. Summary of Significant Accounting Policies (continued)

##### **Fidelity Bond**

The Company maintains a \$15,000,000 fidelity bond.

##### **Effect of New Accounting Pronouncements**

###### **Leases**

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). Under this new accounting guidance, an entity is required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. Topic 842 was subsequently amended by various standards, including ASU No. 2018-10, Codification Improvements to Topic 842, Leases; and ASU No. 2018-11, Targeted Improvements. This new guidance offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. This new guidance is effective for first quarter 2019, and requires a modified retrospective adoption, applying the new standard to all leases existing at the date of initial application, with early adoption permitted. An entity may choose to use the standard's effective date, rather than the beginning of the earliest comparative period presented, as the date of initial application. An entity would record the effects of initially applying the new guidance as a cumulative-effect adjustment to retained earnings. Consequently, an entity's reporting for the comparative periods presented in the year of adoption would continue to be in accordance with the current guidance, including the current disclosure requirements.

To facilitate transition, the new guidance includes a package of practical expedients that entities may elect to apply on adoption. The package of practical expedients relate to the identification and classification of leases that commenced before the effective date and initial direct costs for leases that commenced before the effective date. The new guidance also includes a practical expedient permitting the use of hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset.

An assessment to determine the impacts of the new accounting standard has been performed. Based on the Company's assessment, the adoption of Topic 842 will not have a material impact on the Company's financial statements.

###### **Credit Losses**

In July 2016, the FASB issued new accounting guidance for credit losses that changes the impairment model for most financial assets and certain other investments. The standard will replace today's incurred loss approach with an expected loss model for instruments measured at amortized cost and require entities to record allowances for available for sale debt securities rather

## GBS Retirement Services, Inc.

### Notes to Financial Statements (continued)

#### Credit Losses (continued)

than reduce the carrying amount. The standard requires entities to record a cumulative-effect adjustment to retained earnings the first reporting period in which the guidance is effective. This new guidance is effective in 2021. Management is currently reviewing the guidance, and does not expect the adoption of this new guidance to have a material effect on the financial statements.

#### 2. Income Taxes

Significant components of the income tax expense in 2018, include the following:

|                  |              |
|------------------|--------------|
| Federal:         |              |
| Current          | \$ 2,004,640 |
| Deferred         | 2,888        |
|                  | <hr/>        |
|                  | 2,007,528    |
| State and local: |              |
| Current          | 477,054      |
| Deferred         | 929          |
|                  | <hr/>        |
|                  | 477,983      |
|                  | <hr/>        |
|                  | \$ 2,485,511 |

At December 31, 2018, the Company had recorded gross deferred tax assets and liabilities of \$84,448 and \$49,370, respectively. The Company's net deferred income tax asset is attributable to differences in unearned fees and prepaid assets.

During 2018 there was no valuation allowance or change in the valuation allowance. The effective tax rate is greater than the combined statutory rate of 26%, due principally to permanent items and prior year adjustments. The Company paid \$2,882,645 in income taxes to Gallagher relating to 2018.

There were no net unrecognized tax benefits that, if recognized, would affect the effective tax rate at December 31, 2018. The Company accrues interest and penalties related to unrecognized tax benefits in its provision for income taxes. At December 31, 2018, the Company had no accrued interest and penalties related to unrecognized tax benefits.

The Company is included in the consolidated federal income tax return of Gallagher and is also included in certain combined state tax returns, which include other members of the Gallagher consolidated group. At December 31, 2018, the Gallagher consolidated group corporate returns had been examined by the Internal Revenue Service (IRS) through calendar year 2010. The IRS is currently conducting various examinations of calendar years 2011 and 2012.

## GBS Retirement Services, Inc.

### Notes to Financial Statements (continued)

#### 2. Income Taxes (continued)

On December 22, 2017, the U.S. enacted tax legislation commonly referred to as the Tax Cuts and Jobs Act (the Tax Act), which significantly revised the U.S. tax code by, among other things, lowering the corporate income tax rate from 35.0% to 21.0%. SEC Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (SAB 118) describes three scenarios associated with a company's status of accounting for income tax reform. Under the SAB 118 guidance, the Company made reasonable estimates for certain effects of tax reform in our 2017 financial statements. The Company recognized provisional amounts for deferred income taxes. As December 31, 2018, the Company finalized estimates under SAB 118. The Company completed the analysis with respect to the income tax implications of the Tax Act, which has been reflected in the 2018 financial statements.

For the year ended December 31, 2017, the Company determined that net deferred tax assets required revaluation as a result of the Tax Act. At that time, the Company recognized a provisional \$24,690 net expense to the provision for income taxes as a result of the restatement of net deferred tax assets. In the 2018 consolidated financial statements, the Company finalized the revaluation of net deferred tax assets by recognizing an additional \$644 net benefit to the provision for income taxes.

#### 3. Fair Value

The FASB Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement* (FASB ASC 820), defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy that prioritizes the input to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income, or cost approach, as specified by FASB ASC 820, are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Company has the ability to access.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable or the asset or liability, either directly or indirectly.

## GBS Retirement Services, Inc.

### Notes to Financial Statements (continued)

#### 3. Fair Value (continued)

- Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. The unobservable inputs should be developed based on the best information available in the circumstances and may include the Company's own data.

When available, the Company generally uses quoted market prices to determine fair value and classifies such items in Level 1. In some cases where a quoted market price is not available, the Company will make use of acceptable practical expedients (such as matrix pricing) to estimate fair value, in which case the items are classified in Level 2.

All of the Company's investments in U.S. government agency and U.S. government mortgage-backed securities, with a fair value of \$22,980 are classified as Level 2. There were no transfers between Levels 1, 2, or 3 during the year.

#### 4. Related-Party Transactions

Professional fees represent expenses incurred by GBS while providing consulting and client relationship services on behalf of the Company. The cost of these services is based on an allocation of the GBS consultants' salaries, bonus, benefits, and travel and entertainment expenses relative to time spent performing consulting services for the Company. The amount of this allocation for 2018 is \$23,047,052.

Certain operating expenses are allocated directly by GBS to the Company based on employee headcount, salary, and revenue ratios. The allocated expenses are classified as salaries and employee benefits and other operating expenses on the Company's statement of income. Other allocation bases could produce different results.

Expenses allocated by GBS to the Company in 2018, were as follows:

|  |                     |
|--|---------------------|
| Business insurance premiums                                    | \$ 146,228          |
| Accounting and management services                             | 966,815             |
| Management and employee leasing fee                            | <u>3,623,745</u>    |
| Total included in other operating expenses                     | <u>\$ 4,736,788</u> |
| Employee group insurance and various payroll tax-related items | <u>\$ 199,880</u>   |

## GBS Retirement Services, Inc.

### Notes to Financial Statements (continued)

#### **4. Related-Party Transactions (continued)**

Employee group insurance and various payroll tax-related items include expenses related to retirement plans and are included in salaries and employee benefits.

During 2018, the Company paid dividends to GBS totaling \$45,738 and received a capital contribution from GBS totaling \$15,204. These amounts represent the allocation of other costs and income from GBS for stock option costs, which will not be reimbursed.

#### **5. Commitments**

The Company intends to continue to make periodic distributions to GBS while maintaining net capital in excess of its required amount.

#### **6. Net Capital Requirements**

Pursuant to the net capital provisions of Rule 15c3-1 of the Securities Exchange Act of 1934, the Company is required to maintain a minimum amount of net capital as defined under such provisions. The net capital rules may effectively restrict the payment of cash dividends. Net capital and the related net capital ratio may fluctuate on a daily basis. At December 31, 2018, the Company has net capital (as defined under Rule 15c3-1) of \$12,686,936 and a net capital requirement of \$1,892,423. The Company's ratio of aggregate indebtedness to net capital was 2.24 to 1.

## Supplementary Information

GBS Retirement Services, Inc.

Schedule I – Computation of Net Capital and Aggregate  
Indebtedness Under Rule 15c3-1

|  |                      |
|--|----------------------|
| <b>Net capital</b>   |                      |
| Stockholder's equity   | \$ 16,792,534        |
| Less non-allowable assets  | 4,070,098            |
| Less haircuts on securities  | 35,500               |
| Net capital  | <u>\$ 12,686,936</u> |
|  |                      |
| Required net capital (the greater of 6 2/3% of<br>aggregate indebtedness or \$5,000) | <u>\$ 1,892,422</u>  |
| Excess net capital   | <u>\$ 10,794,514</u> |
|  |                      |
| <b>Aggregate indebtedness</b>  |                      |
| Accounts payable and other liabilities   | <u>\$ 28,386,309</u> |
|  |                      |
| Ratio of aggregate indebtedness to net capital                                       | 2.24                 |
|  |                      |
| Non-allowable assets:  |                      |
| Interest receivable  | \$ 3,211             |
| Fees receivable  | 3,118,535            |
| Commissions receivable   | 381,695              |
| Deferred income tax receivable due from Arthur J. Gallagher & Co.                    | 366,255              |
| Deferred tax asset, net  | 35,078               |
| Net fixed assets   | 13,083               |
| Other Assets   | 152,241              |
|  | <u>\$ 4,070,098</u>  |
|  |                      |
| Haircuts on trading and investment securities:                                       |                      |
| Exempted securities  | \$ 1,002             |
| Other securities   | 34,498               |
|  | <u>\$ 35,500</u>     |

*No material differences exist between the above computation and the computation included in the Company's corresponding amended unaudited FOCUS Part IIa filing as of December 31, 2018 submitted February 27, 2019. See accompanying reconciliation*

***Reconciliation with the Company's computation of net capital as of December 31, 2018***

|   |                      |
|---|----------------------|
| Net Capital as reported in the Company's Part IIA (unaudited)<br>FOCUS report filed January 24, 2019                        | \$ 12,275,152        |
|   |                      |
| Adjustments   |                      |
| Adjustment related to updated tax provision   | 767,265              |
| Adjustment to non-allowable asset amount  | (355,481)            |
| Net capital as reported above and in the Company's Part IIA (unaudited)<br>amended FOCUS report, filed on February 27, 2019 | <u>\$ 12,686,936</u> |

GBS Retirement Services, Inc.

Schedule II - Computation for Determination of  
Reserve Requirements under Rule 17a-5(d)

December 31, 2018

The Company is exempt from the computation of reserve requirements under paragraph (k)(1) of Rule 15c3-3 of the Securities Exchange Act of 1934.

GBS Retirement Services, Inc.

Schedule III - Information Relating to  
Possession or Control of Securities under Rule 17a-5(d)

December 31, 2018

The Company is exempt from the possession or control requirements under paragraph (k)(1) of Rule 15c3-3 of the Securities Exchange Act of 1934.