

Report On
401k Retirement Plan: A Case Study on Data Path Limited

By
Anna Alam
Student ID: 17104030

An internship report submitted to the BRAC Business School in partial fulfilment of the requirements for the degree of
[Bachelor of Business Administration]

BRAC Business School
BRAC University
June, 2022

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Declaration

It is hereby declared that

1. The internship report submitted is my/our own original work while completing degree at Brac University.
2. The report does not contain material previously published or written by a third party, except where this is appropriately cited through full and accurate referencing.
3. The report does not contain material which has been accepted, or submitted, for any other degree or diploma at a university or other institution.
4. I/We have acknowledged all main sources of help.

Student's Full Name & Signature:

Anna Alam

Student ID: 17104030

Supervisor's Full Name & Signature:

Md. Shamim Ahmed

Deputy Registrar, BBS
BRAC University

Letter of Transmittal

Md. Shamim Ahmed
Deputy Registrar,
BRAC Business School
BRAC University
66 Mohakhali, Dhaka-1212

Subject: Submission of Internship Report

Dear Sir,

This is my pleasure to display my entry level position and provide details regarding Data Path Limited, where I was appointed by your direction along with the mercy of the Almighty.

I have attempted my best to finish the report with essential data and recommended proposition in a significant compact and comprehensive manner as much as possible.

I earnestly hope that the report will meet the standard requirements demanded by you.

Sincerely yours,

Anna Alam
ID: 17104030
BRAC Business School
BRAC University

Acknowledgement

It feels surreal to be able to complete this report after months of training and hardships. Time management was complex for me due to the working hours combined with commute time. I am utterly grateful to my respected supervisor **Md. Shamim Ahmed**, who despite being unwell for a significant amount of time, did his level best to guide me through this entire process. His continuous support and patience were key for the completion of my report.

I would like to express my heartfelt gratitude to my team leader, **Mr. Mahmudul Hassan Asif** for being an amazing role model and accepting towards me as an intern in his team. Moreover, I cannot thank him enough for laughing at all my silly jokes. In addition to that I would like to thank my on- site supervisor, **Mr. Foyaz Hossain**, and my trainer **Mr. Abdullah Al Mamun** for their contribution of instilling valuable skills and insights of the corporate world in me that are required to claim a position in this industry. The transformation that happened to me during the 4-month period was only possible because of their dedication and putting faith in me.

Last but not the least, I would like to thank **Mr. Mazed Mourshed & Mr. Nayan Chowdhury**, two fellow interns whom I shared my internship experience with. They motivated me through thick and thin and it was only because of them I could keep my spirits high every time I hit rock bottom.

Executive Summary

Data Path Limited acts as a third-party administrator to its mother company, July Services established in Texas, USA. July Services is bound to outsource its business processes as the average gross salary in the US is high. It is due to this reason that the mother company arranges more TPA companies to carry out its 401k operations effectively and efficiently.

The accounting principles or procedures of Retirement Provident Fund (RPF) followed by the USA is complex on root level as opposed to what we learn here in Bangladesh. People in the USA industry follow a set of rules and regulations while carrying out the 401k operations and it is due to those rules that the RPF accounting procedures have grown to be so complicated in the first place.

The RPF industry without any doubt may have an impact on the outsourcing world here in Bangladesh. This sector happens to be lucrative as more people are investing in 401k plans at an exponential rate and simultaneously showing growth in both stock market and individual financial security.

Bangladesh can learn a lot from this industry. This applies to how one must abide by rules and how the US government is concerned for its elderly and retired citizens.

Table of Contents:

Declaration.....	2
Letter of Transmittal.....	3
Executive Summary	5
Table of Contents:.....	6
Chapter 1: Industry Overview.....	9
1.1 Student Information	9
1.2 Internship Information	9
1.2.1 Details Regarding Organization & Internship	9
1.2.2 Job Scope	10
1.3 Internship Outcomes	10
1.3.1 My Contribution to the Company.....	10
1.3.2 Benefits to Student	11
1.3.3 Problems/ Difficulties	12
1.3.4 Recommendations.....	13
Chapter 2: Organization Part.....	13
2.1 Introduction	13
2.2 Organization Overview	14
2.2.1 Organization Vision.....	14
2.2.2 Organization Mission Statement	14
2.2.3 Organization Core Values	14
2.2.4 Company Objective (Present).....	15
2.2.5 Founding Partners	15
2.2.6 Partners (Strategic).....	15
2.2.7 Organization Structure	15
2.2.8 Customer Mix	17
2.2.9 Service Mix.....	17
2.3 Industry Analysis.....	18
2.3.1 Outsourcing	18
2.3.2 Size/Trend/Maturity	19
2.3.3 External Economic Factors	19
2.3.4 Technological Factors	19

2.3.5 Barriers to Entry.....	19
2.3.6 Supplier & Buyer Power.....	20
2.3.7 Threat of Substitutes	20
2.3.8 Industry Rival	20
2.3.9 SWOT Analysis	20
Chapter 3: Project Part	21
3.1 Background Information.....	21
3.2 American Retirement Policy	21
3.2.1 Types of American Retirement Plan	21
3.2.2 Plan Document Language	22
3.3 Bangladeshi Retirement Policy	23
3.3.1 Types of Pensions	24
3.3.2 Retirement Policy followed by Data Path Ltd.....	24
3.4 Comparative Analysis: Bangladesh V/S USA.....	25
3.5 Ways Bangladesh Can Employ American Retirement System	27
3.6 Resolving Retirement Plan Problems	28
3.7 Findings, Recommendations & Conclusion	28
3.8 References	30

List Of Tables:

- **Figure 1:** Company Organogram
- **Table 1:** SWOT Analysis
- **Figure 2:** Retirement Benefits of Bangladesh & USA
- **Table 2:** Comparison of Retirement Provident Fund Between Bangladesh & USA

List of Acronyms:

- **JBS:** July Business Services
- **BPO:** Business Process Outsourcing
- **DOB:** Date of Birth
- **DOH:** Date of Hire
- **DOT:** Date of Termination
- **401k Compensation:** Deferral
- **PC:** Personal Computer
- **IRS:** Internal Revenue Service
- **ERISA:** Employee Retirement Income Security Act
- **TPA:** Third Party Administrator
- **HCE:** Highly Compensated Employee
- **NHCE:** Non-Highly Compensated Employee
- **ADP:** Actual Deferral Percentage
- **ACP:** Actual Contribution Percentage
- **PS:** Profit Sharing
- **RK:** Recordkeeper
- **RPF:** Retirement Plan Fund
- **DOL:** Department of Labor
- **ASPPA:** American Society of Pension Professionals and Actuaries
- **SIMPLE:** Saving Incentives Match Plans for Employees

Chapter 1: Industry Overview

1.1 Student Information

Student Name: Anna Alam
ID: 17104030
Department: BRAC Business School
Major: Finance
Minor: Accounting

1.2 Internship Information

1.2.1 Details Regarding Organization & Internship

Internship Duration: The commencement of my internship program in Data Path Ltd happened on 1 February 2022. Unlike all other circulars I came across while hunting for an internship post, Data Path Ltd was offering a training program for 4 consecutive months. The last day of my internship program dates to 31st May 2022 but if they plan to recruit me as a permanent employee, then I must continue going to the office premises and work as I do every day since.

Department Name: Business Process Outsourcing (BPO). BPO is growing exponentially and is the biggest department in the organization. There are 92 employees altogether in BPO alone, and another 29 interns are going through their training process currently to join the BPO team. BPO is hoping to touch the benchmark of a century with the next recruits.

Name: Data Path Ltd

Address: Ambon Complex, 99 Bir Uttam AK Khandakar, Dhaka- 1212

Name & Designation of On-Site Supervisor: Mr. Foyaz Hossain, Senior Executive Officer

1.2.2 Job Scope

Job Description: Receiving a positive call right after the interview with the HR Director and the Head of the BPO team, the next step was to go through an intensive training session, the duration of which was 2 weeks. As we were all new to this industry, we stepped into this company with absolutely zero knowledge about what is to come. To bridge the difference, this initial training session was vital. Here, we were given an overview as to how everything works and all the things that entails. Everyday a new trainer would come and give us a thorough explanation about a particular subject matter. Some of the topics included were Plan Document, ADP-ACP testing, census checking, trust accounting, Form 5500, ERISA, and principles of retirement provident fund (RPF).

After the completion of this 2- week training period, they made us sit for an exam. The syllabus encompassed each and every thing that was covered during the training session. The exam was just a mere way of evaluating an intern's strong suit and which team among the many in the BPO will be suitable for that individual. Once we were assigned to our respective teams based on the exam, the official 4-month training started from that point onwards. In addition to that, we had to pass both excel training test and email writing test as they were crucial tasks for daily operations if we end up being hired.

Data Path usually recruits candidates who show enthusiasm into staying in the company for more than a year. If they happen to lose a potential employee especially after the rigorous training session, then they consider it a huge loss for the company. This is because they invest in a candidate from the scratch as none of the interns add value to the company for the first few months. Losing a member will mean to repeat the process once again with another individual which is time consuming.

Unlike all other circulars that I came across while hunting for an internship post, the remuneration that Data Path was offering was comparatively higher. In addition to that, it was also catering transportation services along with lunch and snacks services free of cost. These two privileges were like cherry on top of a cake especially for someone in Dhaka city. So far, I was happy to be associated with Data Path Ltd.

1.3 Internship Outcomes

1.3.1 My Contribution to the Company

As an intern, I was not given any solid tasks. The team that I was assigned to had to complete 3 major tasks for its clients and they are trust accounting, eligibility testing, and allocation to do a full plan valuation.

Trust accounting happened to be the base of all other tasks that came later. Trust accounting entailed two parts and they are reconciliation and individual development accounts (IDA). My supervisor and trainer put more emphasis on these two parts while training me for four months. One month having been trained, there came a time in the company which they

referred to as “busy season.” During this time, the work load was concentrated as opposed to another time of the year. They tend to hire recruits solely to tackle the immense workload that burdened them during this period.

Prior to this busy season, I was made to practice all the prior year files so that I could get the hang out of it and in turn recheck their work for any potential mistakes. Moreover, they prohibited from sharing current year files since they contained sensitive data. Loss or misuse of data especially in the hands of an amateur intern could cost them a lot of money. This is another reason Data Path does not allow anyone to input these confidential data into a random PC other than the dedicated computers provided by the company.

Slowly and steadily during the busy season, my supervisor started to entrust me with live tasks. My tasks would later get reviewed by them before they finally sent it to the clients, after making corrections if deemed necessary.

I was made to check for any missing files first thing every working day. It was my responsibility to interact with the clients for the missing files through email. I also prepared the email for all the submissions that happened when it was due. They were conscious about the emails that were sent from our end, so my emails were also subject for reviewing.

Lastly, after the completion of my internship period in Data Path if they choose to hire me, then they will further train me for the other two parts that is eligibility testing and allocation to run full plan valuation.

1.3.2 Benefits to Student

- **Corporate Knowledge:** As I mentioned earlier, we all stepped into the organization without any prior knowledge about the 401k industry and how it works. We have been groomed about the accounting procedures and the RPF industry from the very first day. The intensive training sessions enriched and broadened our horizons about the 401k industry which in turn made me realize how powerful outsourcing can be.
- **Corporate Behavior:** Data Path knows that none of us new interns know nothing about the industry. Then on what basis do they hire new recruits might be a major concern. According to the seniors, they say that one might take one month or even a year to even understand how to do their job. But one day, eventually, they will. Data Path is lenient about the pace of their employees regarding work. What they do not tolerate is misbehavior and arrogance. Since BPO is a growing family, our seniors try their best to maintain peace and keep the environment as amiable as possible. They refrain from terminating employees but they do when they sense someone is not being respectable towards the seniors. How to behave in the dining, how to address a colleague, how to sit in a car full of seniors, these are the sort of things I learned over my internship period.
- **Being adept in MS Excel:** No matter where you are in Data Path, you must use MS Excel. This tool is extensively used in the organization to carry out the accounting activities. In the 4-month period I have worked using excel so much that I have ingrained all the keyboard shortcuts and can successfully work without me having to touch the mouse.

- **Time Management:** As I mentioned earlier that I have assisted my seniors in busy season, I got a thorough understanding regarding how to handle deadlines that were tightly knitted. I witnessed the immense pressure they had to work under to deliver the files in time. The seniors in my team tried their level best to dodge any negative emails from the clients. This is what motivated them to get the job done quickly but properly and I was also there to help them get through the day.
- **Heightened Sense of Professionalism:** Working in groups or teams means an amalgamation of different people coming under the same umbrella. In a setting as such, I gradually could tell the difference between friends and colleagues. In a corporate environment it is rare to find friends.
- **Building Confidence:** I have not been confident all my life as I am introverted. I had difficulty making friends and hitting up a conversation with a stranger seemed impossible. Data Path has caused my life to go upside down from the very first day. In a corporate setting, it is tough to go unnoticed and stay without talking. I was never alone in my office. I never realized when I was getting out of my comfort zone and blending in with anyone and everyone. I am thrilled to acknowledge that people like me for the real me. I met people who bloomed in my presence. I felt a sense of belongingness within a short span of time which helped to boost my confidence.
- **Vigilance:** We work with sensitive information of US citizens like social security numbers (SSN). Since it is an outsourcing company, our seniors had to do a lot to gain their trust. When dealing with interns, they scheduled a separate training session that enclosed everything about data security and how to protect them from hackers while working. Even a slight mistake can cost them a lot of money and most importantly, loss of client. Moreover, my seniors made me lock my PC every time I was not around.
- **Communication:** Data Path has 3 floors altogether in the building in Mohakhali. My desk got shifted thrice during the internship period. We were encouraged to communicate with one another regardless of different floors. The seniors were open to conversation and quite accepting of the juniors which made me feel welcomed.

1.3.3 Problems/ Difficulties

- **No Sense of Time:** I had to write my internship report to complete my bachelor's degree but the long hours that I had to fill in the office along with the never-ending commute time, really took a toll on me. I realized midway that I came home only for a few hours to sleep before repeating everything the next day. This was nerve-wrenching especially during the busy season, when I left the office premises after 12 hours of providing my services. I was not the only one who had to stay up late but the seniors were very much used to leaving for home that late at night. Being a girl that was a concern for my family, but the transportation service came to my rescue and I applaud Data Path for being sensitive towards its female employees and interns. As a result, it became exceedingly difficult for me to manage time to even start working on my report.

- **Maintain Discretion:** We were prohibited to disclose the names of our clients outside office and to keep mum about the work we did. We could lose our chance at Data Path if we failed to follow this rule.
- **Less Work/Life Balance:** Another aspect that I noticed about Data Path is that, it became difficult to strike up a balance between personal life and professional life. Looking back, I could feel that work life consumed 80% of my life altogether even as an intern.
- **Slow Internet:** Data Path uses VPN most of the time for its remote server system. While working using the US server, my PC used to hang multiple times in a row in a single day and we had to call someone from the IT department to fix the issue. As a result, the overall process of my work came to a halt which was annoying.
- **Less Office Space:** Data Path is growing with each passing day. This means that with each new batch of interns, the office space is being crowded. We already have 3 floors as I mentioned before, but as it turned out, it is not enough. It is only due to this reason many senior employees were sent to work from home so that the new interns could get enough space to go through their training session.

1.3.4 Recommendations

- They must plan about shifting their office to a new location if they are adamant about recruiting more people given the existing situation
- They should think about making their network faster and efficient
- They must enhance their training program by making some changes to their current methods
- They should opt for a bigger mode of transportation for the same issue as discussed above

Chapter 2: Organization Part

2.1 Introduction

This internship report paints a comprehensive picture of the outsourcing industry that outsources RPF accounting procedures from the USA to Bangladesh. Therefore, it is essential to know how RPF benefits the retired citizens of the USA as per its government policy.

Americans have a terrible tendency of splurging all their earnings without saving a bit. It is due to this reason that employers provide them with such advantages that could work as a shield against any catastrophic circumstances, especially in old age. Moreover, these sorts of rewards can boost the motivation and confidence of the employees and in turn, can attract more talents into their companies. Among the many advantages, some include life coverage and handicap pay.

The guidelines set for the RPF industry are developed by the IRS and ERISA along with other privacy ACTs. Companies that work in this industry are known as third-party administrators. These firms usually develop strategies for RPF plans to suit their accounting procedures, which happen to be complex on a root level. Furthermore, there is a plethora of data and workforce available in this industry which makes the average pay of TPA firms more expensive. As a result, many TPA firms took refuge to third-world countries as the labor cost is significantly cheap.

2.2 Organization Overview

July Business Services: Data Path Ltd works under July Business Services, which is a distinguished organization in the 401k industry in Texas, USA. JBS offers services like retirement plan funds, administration, and recordkeeping to name a few. Ever since its inception in 1994, JBS is currently handling over 9440 clients overseas. The 401k industry works for the US employees' financial security during their retirement period. To fulfill this purpose, JBS works on retirement plans through outsourcing. The current net worth of JBS is over USD 5 billion.

Data Path Limited: Its inception took place back in 2006 in Uttara, Dhaka. Initially, 6 incredibly talented personnel were there to set its foundation. Gradually when they hit 50 employees, they shifted their office space to Gulshan. By this time, JBS was handing in most of its outsourcing work to Data Path alone while downsizing its employees in the US. From 2015 onwards, Data Path has seen rapid growth in the organization, especially because of its outsourcing department. In recent times, Data Path is working with 17 TPA firms and has over 300 employees, and established its workplace in Mohakhali. Lastly, Data Path and Fin Source are in the outsourcing industry of RPF in Bangladesh.

2.2.1 Organization Vision

“To become the best retirement plan administrator in The United States of America”

2.2.2 Organization Mission Statement

“To offer financial advisors and plan sponsors the competency to choose the retirement plan solution that best meets the demands of founders and their employees by delivering responsive, impartial, reliable plan design, administration, recordkeeping, and consulting that encourages savings for retirement.”

2.2.3 Organization Core Values

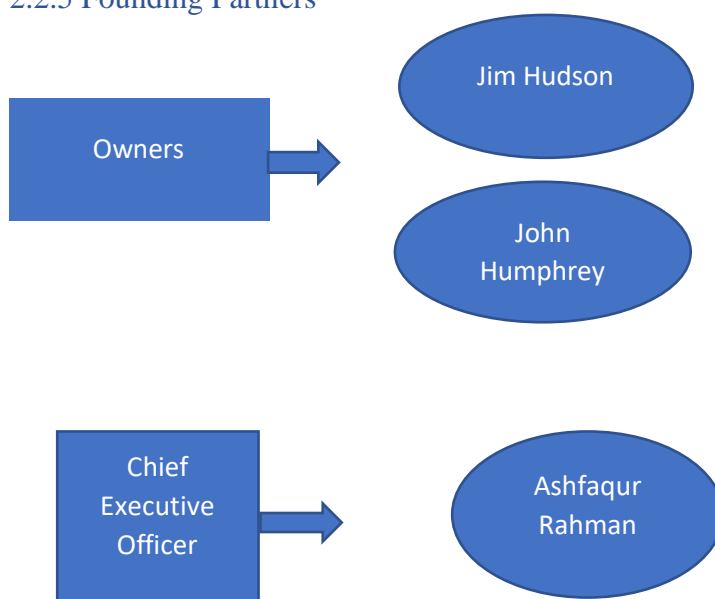
- Team Work
- Accountability

- Technical Proficiency
- Optimism
- Commitment
- Goal- Driven
- Effective Communication
- Creativity
- Celebrate Success

2.2.4 Company Objective (Present)

- Shoot up the number of TPA firm clients from 17 to 25 by 2024

2.2.5 Founding Partners



2.2.6 Partners (Strategic)

- **Recordkeepers:** Recordkeeping companies act like banks to a great extent. As per the ERISA law, companies associated with the RPF industry are bound to keep their money in recordkeeping companies. The company then in turn provides statements such as loan statements and others every year. However, without these statements, it would be impossible to complete the whole RPF plan procedures.
- **Third-Party Administrators (TPA):** JBS was the first TPA firm in the USA to accomplish success in its agenda. Following this milestone, others tried to replicate this idea as well. JBS, on the other hand, took the side of Data Path and declared that its employees are qualified enough to work on their plans with finesse.

2.2.7 Organization Structure



Figure 1: Organogram of Data Path Ltd

- **Sales:** This department works with 401k retirement policy to do the deconversion process. They also prepare the sales proposals and manage compliance data illustration of the company.
- **New Business:** They input data in their database and give guarantees to extract them. This section of the company provides us with all the information.
- **ERISA Consulting:** This department constructs the plan document as per the information offered by the sales and installation teams. Profit-sharing plans, 401k plans, safe harbor plans are few examples of paperwork that contains 40 and above pages of laws and guidelines as to how they will affect the plan. Forwarding appropriate information to designated departments is what they ensure.
- **Recordkeeping:** This department deals with the parties involved in a plan, what investments they own and to keep track of the net cashflow.
- **Workflow 5500:** Also known as Form 5500, this document needs to be filled in compliance with the department of labor. For every plan of JBS, Data Path generates Form 5500.

- **Outsourcing (BPO):** Unlike all other departments in Data Path, the outsourcing department is not directly associated with JBS but works under a separate TPA firm. Each BPO team collaborates with a distinct TPA to provide services like reconciliation, trust accounting, plan review and plan procedure. This is the fastest growing department in the company as it has a respectable number of TPA clients.
- **Accounting:** This department assists Data Path with all its bookkeeping and money-related issues. Some of the issues include monetary explanation, remuneration for representatives and stock records.
- **Software:** This department develops software to run the company's day to day operations. It is another core department for the company as Data Path is also a software-based company besides 401k retirement plan.
- **Information Technology (IT):** This department is responsible of keeping the systems up and running along with maintaining the network for all electronic devices.
- **Allocation:** This department provides money to each plan participant annually and provide data to workflow 5500. As JBS is a joint venture, all their labors are seized by the allocation team, who prepares distinctive records to provide all the necessary information to the other offices.
- **Human Resource (HR):** This department ensures the security of its workers and to keep the working environment intact.
- **Distribution:** This department is responsible for allocating money to each participant in a retirement plan. They use a software called 'Relius' to get their job done and to ensure whether they transferred the funds properly or not.

2.2.8 Customer Mix

The crucial customers of Data Path are the 17 TPA firms besides JBS, Tristar, APCI and many more.

2.2.9 Service Mix

JBS along with the other clients enjoy a variety of services provided by Data Path and are as follows:

- **Plan Design:** To start an RPF plan, it needs to be designed first. While designing a plan, we must keep many factors, rules, and regulations in mind. The plan must be designed to pass all the discrimination tests. Similarly, it must also consider what benefits the employers most while simultaneously catering to the normal employees appropriately. Likewise, what sort of contribution will be there in the plan, and what sort of participants must be exempt from the plan should also be considered while designing the plan.

- **Plan Setup:** For both existing and new RPF plans, some paperwork needs to be ready before evaluating a plan statement. Similarly, some additional paperwork needs to be ready as well to help with the setup process such as setting up the questionnaire, checklists, recordkeeping statements, loan policies, amendment reports and rollover policies to name a few.
- **Plan Operation:** Data Path looks after the estimates, calculations, and accounting procedures for all the plans in this stage. Few of the other methods are importing participants' census, doing vesting, eligibility, and contribution calculation, doing asset, loan, and contribution allocation to name a few.
- **Compliance Testing:** For a plan to be valid in the eyes of the law, some tests are required to be done and passed. The tests are intended to curb any discrimination that exists in the plan:
 - ❖ ADP/ACP
 - ❖ Top-Heavy
 - ❖ Minimum Coverage
- **Tax Compliance:** Statements such as Form 5500 and Form 5330 are required to be done just like the compliance testing for a plan to be valid in the eyes of the law.
- **Plan Recordkeeping:** Data Path, JBS, July's daily valuation records platform and collaboration partners happen to deliver automatic recordkeeping services such as quarterly participant statements and 24/7 internet connectivity.
- **Services to Participants:** Since participants are linked with financial institutions, JBS offers top-notch tools for them to gain financial security.
- **Payroll Advantages:** The ultimate goal of this service is to process every paycheck free of error all the time. The presence of payroll services means the effort of clients is reduced significantly along with improved accuracy and efficiency.
- **Enrollment Materials:** These materials are provided to the participants by the JBS to assist them into making sound enrolling and investment decisions. Some materials include enrollment workbooks and risk-profile worksheet.
- **Investment Advisor:** Both the employer and employee's money hardly stay dormant in the recordkeeper's bank. They are usually reinvested to extract some extra cash for the participants. Likewise, Data Path works as an advisor to clients to educate them about which field would be suitable to invest their money in.

2.3 Industry Analysis

2.3.1 Outsourcing

When a company lets an outsider company or individual handle a particular portion of their business process, then that phenomenon is known as outsourcing. It is possible to boost productivity and reduce costs through outsourcing. Data Path Ltd is an outsourcing company in Bangladesh. The TPA industry in the USA is deeply convoluted. Due to the complexity of the work, they need to recruit highly skilled employees on a regular basis. These employees would charge \$10,000 per month on par which is expensive for the TPA firms. It is due to this reason; that some USA companies are extending their outsourcing work to third world countries like Bangladesh. As Bangladesh is a developing country, the labor cost is comparatively cheaper which in turn is creating job opportunities for the youths of this country. It has been many years since Data Path is in this business and has specialized in the TPA outsourcing industry ever since.

2.3.2 Size/Trend/Maturity

The outsourcing industry is growing exponentially with each passing day. Developing countries like Bangladesh have humongous opportunities to shine in this industry. Moreover, the American TPA industry is well-endowed. In bygone days, nobody imagined that outsourcing could be so essential. Nowadays, however, the pattern seems to have shifted for the better. In today's world, many USA companies are downsizing their existing employees to have their business processes outsourced. Furthermore, Data Path was successful in securing 5 more TPA clients just last year and is expecting to have more than 25 TPA clients by the end of this year.

2.3.3 External Economic Factors

Data Path Ltd dealing with an international brand means that foreign money getting injected into our economy; aiding in positive net cash flow, the standard of living, and job creation.

2.3.4 Technological Factors

During its commencement, Data Path only adhered to the commonly utilized software in the American retirement industry. In today's world, every client works independently and uses diverse types of software that suit their preferences. Time for Data Path has changed significantly over the years. Now Data Path works with 17 different TPA clients and has enabled its employees to learn the basics of different software that are used in the industry. In addition to that, Data Path is in the process of developing its own software for peddling purposes in the American RPF industry.

2.3.5 Barriers to Entry

To do business with the USA RPF industry as a newbie, trust is a key element. This industry works with many sensitive data about its participants, and mishandling that information will outright hamper the reputation of the TPA firm. Besides, a huge chunk of a technically educated workforce is needed for it to work. Unfortunately, many people in this country are ignorant about the RPF industry. Therefore, an extended training session along with a humongous number of investments are required to establish an IT-based company. As a result, it is exceedingly difficult for a new company to enter this industry.

2.3.6 Supplier & Buyer Power

Supplier and buyer relationships are blurry. We can presume the TPA firms to be buyers and Data Path to be its seller. To complete all the plans within a given period, the pay must be handsome given the industry is quite big. For example, to prepare one unit of Form 5500 if they pay \$150 each, then Data Path usually does more than 100 Form 5500 every day.

2.3.7 Threat of Substitutes

The software could be a threat at this moment. Many software companies are hoping to create something that can complete an entire RPF plan from scratch. Anybody with little expertise in this industry would be able to operate this software.

2.3.8 Industry Rival

“Fin Source” is the only competitor of Data Path Ltd. This is the other RPF outsourcing firm that exists in Bangladesh. They started their journey back in 2011 and the founders happen to be ex-employees of Data Path Ltd.

2.3.9 SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> ▪ Earning foreign remittances for Bangladesh ▪ Trustworthy to USA RPF industry ▪ Secured software and IT-based service ▪ Sustainable business growth in country ▪ No competition in the market 	<ul style="list-style-type: none"> ▪ Scarcity of advanced software ▪ Intact service industry in Bangladesh ▪ Requires training from scratch ▪ Time consuming training program ▪ Weak promotional activities and website ▪ Inverse relationship between office space and new recruits
Opportunities	Threats
<ul style="list-style-type: none"> ▪ Creating job opportunities for the youth ▪ Maintaining strategic alliances with foreign firms across globe ▪ Workflow relies heavily on US economy 	<ul style="list-style-type: none"> ▪ Not a renowned sector in Bangladesh ▪ A local company is growing in the market ▪ Depends solely on the TPA firms

Table 1: SWOT Analysis

Chapter 3: Project Part

3.1 Background Information

Research Topic: 401k Retirement Plan: A Case Study on Data Path Limited

Broad Objective: To analyze how 401k industry works in the BPO industry and to draw a comparative analysis between Bangladesh and USA.

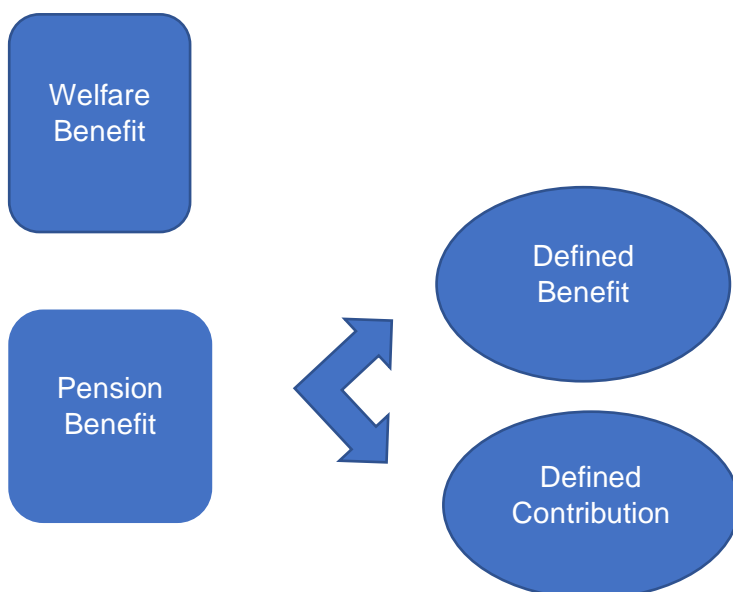
Specific Objectives:

- To have an overview of retirement policy on USA's end
- To have an overview of retirement policy on Bangladesh's end
- To draw a comparative analysis between the countries
- Discuss how Bangladesh can utilize American retirement system
- To talk about any solutions when deemed necessary

3.2 American Retirement Policy

The retirement benefits policy in any country is enclosed by its unique rule and regulations. It varies from country to country. While working on this report, I found significant differences in the policies between America and Bangladesh.

3.2.1 Types of American Retirement Plan



- **Defined Benefit Plan:** Under this plan, a chunk of money will be credited at a certain age after retirement. This is an employer-sponsored retirement plan where benefits are calculated using formulae that considers a range of factors such as salary history and employment duration.
- **Defined Contribution Plan:** This is an ordinary workplace retirement plan where an employee contributes and an employer makes a matching contribution against it. Accounts are set up for participants individually and benefits are allocated to coincide with the amounts credited.
- **Profit-Sharing Plan:** This plan allows an owner to share profits of the business such as 25% of the company's payroll with its employees. The employer is flexible to decide how much to share each year.
- **SIMPLE Plan:** This plan aids employers who own small businesses with dumbing down methods to make contributions to their employees along with making their own savings for retirement. Moreover, the employees are flexible to make salary reduction contributions and the employers can make matching or non-elective contributions against it.
- **Money Purchase Plan:** This plan is alike a profit-sharing plan to a great extent but with some specific distinctions. Unlike profit-sharing plans, a money purchase plan demands the company to cut a certain portion of the participant's earnings on the plan every year.
- **Stock Bonus Plan:** Terminated and retired participants get shares from their organization's stocks as an incentive. They are considered qualified profit-sharing plans as they are governed by the ERISA Act.
- **Employee Stock Ownership Plan (ESOP):** Qualified by IRS, this retirement plan holds, purchases, and, sells the organization's stocks whilst offering employees an ownership stake in the company.
- **Safe Harbor 401k Plan:** This plan is equivalent to a conventional 401k plan but specializes in making commitments for each employee. The commitment is usually 100% vested and diminishes all sorts of obligations on authorities' end. This plan has 3 types such as basic match, enhanced match, and safe harbor non-elective.

3.2.2 Plan Document Language

- **Compensation:** The purpose of compensation is to enjoy the benefits of the contribution. Plan sponsors can add and eliminate features of compensation such as discretionary deferrals as long as they are following the limit dictated by the IRS.

- **Eligible Employees:** These employees are authorized to be let into a plan. Employees who are eligible to be part of this program must have a source of income inside the US.
- **Fiscal & Plan Year:** Plans for the Fiscal year will begin on 1st January and end on 31st December. Whereas, plans for a plan year will begin on 1st July and end on 31st June.
- **Normal Retirement Date & Age:** Retirement age is 65, the fifth jubilee of a participant's inception into a plan.
- **Hours of Service:** The levels of service hours are consistent as per the rules of the Internal Revenue Code and the Department of Labor. IRS states the average hours of service to be 1000 hours.
- **Years of Service:** Year of service from the plan document is usually 12 consecutive months. However, if a participant starts to fulfill 1000-hour working criteria in his first year, then his time on the plan document will be switched.
- **Highly Compensated Employee:** A participant will be considered as highly compensated if he or she fulfills the following criteria:
 - ❖ Must exceed 5% ownership over the asset
 - ❖ Compensation must exceed HCE's both on prior and present years
 - ❖ Having relatives in the plan will by default make him HCE
- **Key Employee:** A participant must fulfill the criteria below to be considered as key employee:
 - ❖ Must surpass 1% ownership with an exceeding compensation of \$150,000
 - ❖ Must exceed 5% ownership
 - ❖ Must gain an annual compensation of \$150,000 or more with an officer
- **Testing:** To avoid discrimination between HCE and non-HCE employees, following tests are required to be done:
 - ❖ Top-Heavy
 - ❖ IRC Coverage
 - ❖ ADP/ACP
 - ❖ Ratio Percentage
- **Vesting:** The remaining amount that participants withdraw before leaving their jobs. The rules of vesting are to work 1000 hours while providing 1 year of service. Vesting includes 2 types such as 6-year of graded vesting and 3-year of cliff vesting.

3.3 Bangladeshi Retirement Policy

The benefits rules were displayed by the Bangladesh government in 1972. To begin with, the retirement was issued based on the settled installments on normal of 12 months recompense in place of 36 months. Furthermore, in 1974 benefits were based on the rate of the earlier installments rather than 12 months' standardized pay. In addition to that, the most noteworthy sum paid was 60% of the most recent installments. Moreover, in 1977 the unused retirement figure was chosen at 80% of the essential pay scale. Thus in 1994, the Bangladesh government-imposed common annuity rules and controls for all the benefit holders, as expressed by Alam in 2018.

3.3.1 Types of Pensions

- **Compensation:** Fund is dedicated to that public servant, who has foregone its status because of the annihilation of a few government agencies or organizations. A government worker is compensated for their previous job along with placement into another organization. The bottom line is, that by limiting the number of posts, the government's revenue will skyrocket. Moreover, the government's earnings must surpass the amount of pension to be paid in the process. However, a terminated participant will be exempt from this type of retirement plan.
- **Invalid:** This is for those employees who lose their mental balance and suffer from a disability. A medical report is required to get through the process.
- **Superannuation:** According to the Public Service Act of 1974, when a government employee fulfils their 57 years, that participant gets eligible for a special pension.
- **Retiring:** When a public servant is released from employment, in compliance with the law, any time after providing 25 years of service best regarding the people. The authority must make a proposal to the appropriate ministry so that the Bangladeshi President could look over the matter.
- **Option:** A public servant owns the right to go for retirement after 25 years of providing service. The government does not have any reason to refuse legally, but once executed it cannot be altered.
- **Family:** When a pension holder dies, the participant's family members automatically become entitled to the pension. The participant can also nominate their offspring as its replacement while he lives. In such a case when nobody is found, then the governing authority will choose a suitable successor.
- **Benevolent:** A deceased participant's family members will receive a fixed income for 10 years if the public servant dies while working or within 5 years of retirement.

3.3.2 Retirement Policy followed by Data Path Ltd

- **Provident Fund:** Employees from Data Path Ltd will be qualified from the date of their affirmation or section in the administration as affirmed representatives. However, resources will be limited by the rules of this fund.
- **Gratuity:** This will be granted to representatives of the company under strict consideration of the Board of Directors, only if the participant fulfills the gratuity rules set by the company. The standard states, that for the initial 5 years of administration in Data Path Ltd, one month's compensation is essential for each completed year of compensation.

3.4 Comparative Analysis: Bangladesh V/S USA

Since Bangladesh is a developing country, it is struggling to support its senior citizens, unlike America. Based on data offered by the finance ministry, approximately 7.5 million people are qualified for pensions in the present fiscal year. Similarly, around 1.5 million employees are going to receive cash aid through numerous sources. However, as per the budget reports for the 2016-17 fiscal year, no pension or gratuity system was to be found for more than 87% of the employed population, as stated by Sarker in "The Daily Star". Hence, we can speculate that Bangladesh is going to see a crisis regarding its retirement issues as the elderly will see their gifts go downhill as they proceed to retire. In addition to that, the COVID crisis has made a drastic impact on retirees in recent times. The Bangladeshi government is constantly failing to keep the regulation of the retirement system prevalent. Even so, the public servants are ignorant about the retirement benefits available to them. As a result, the organizations that are offering benefits to their employees have ignored any sorts of discrimination between participants who are being paid more than those who are receiving nothing at all.

On the contrary, the US government is genuinely concerned about its people's rights to retirement benefits. The American government happens to offer tax advantages to any organization that provides retirement plans to its employees. The process that organizations abide by to provide retirement benefits in compliance with government rules and regulations makes it quite complex. America houses the largest retirement market across the globe as it occupies assets worth \$26 trillion. Moreover, these accounts cover more than \$430 billion in revenue for retirement recordkeepers, asset and wealth managers, annuity writers, and life insurers, as stated by Congruent Solutions in 2020. Senior citizens from prior generations reaped benefits from the US retirement system and have simultaneously been provided with appropriate retirement resources. In addition to that, pensioners appear in attractive shape compared to another segment of the population in terms of consumption, income, and wealth throughout their retired life.

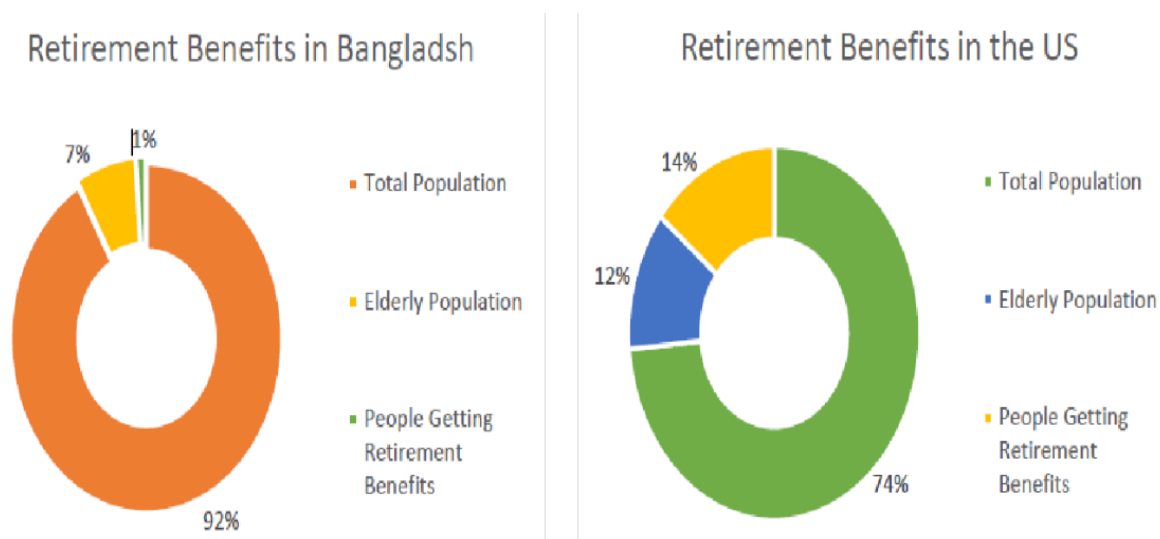


Figure 2: Retirement Benefits of Bangladesh & America

Bangladesh’s pension system seems to be poles apart from the USA’s retirement system. This report helps to analyse the differences and provide solutions to curb them so that our country can have a better retirement system for its senior citizens.

Retirement Plan in USA	Pension Plan in Bangladesh
<ul style="list-style-type: none"> Applicable for both public and private sectors 	<ul style="list-style-type: none"> Public servants are entitled to pension benefits, private sector workers are dependent on its company’s policies
<ul style="list-style-type: none"> Dealt by various organizations like IRS and ASPPA 	<ul style="list-style-type: none"> Dealt by the government
<ul style="list-style-type: none"> TPAs look after the retirement plans 	<ul style="list-style-type: none"> Finance Ministry looks after the pension plans for public sector workers. Whereas for private sector workers, their organization takes care of it
<ul style="list-style-type: none"> Non-discriminatory tests exist for each plan so that every participant gets compensated equally 	<ul style="list-style-type: none"> No tests exist for Bangladesh
<ul style="list-style-type: none"> Participants in the USA know everything that happens to their money. Per the IRS, employers are bound to deposit the money in the RK within a certain period. 	<ul style="list-style-type: none"> Participants in Bangladesh have no idea what happens to the money after its deduction from their salaries. They only receive the money once they retire or leave the job.

<ul style="list-style-type: none"> • Participants are flexible to contribute whenever they want 	<ul style="list-style-type: none"> • Participants are bound to contribute a certain portion each month
<ul style="list-style-type: none"> • Amount contributed by employer is different compared to the amount contributed by employee. The figure is not fixed. 	<ul style="list-style-type: none"> • Both employer and employee contribute a fixed percentage of money each month.
<ul style="list-style-type: none"> • Organizations, in compliance with the government, make the employees withdraw their money while retiring or switching jobs. 	<ul style="list-style-type: none"> • Participants often struggle to withdraw their money.
<ul style="list-style-type: none"> • Participants can either withdraw all their money while switching jobs or rollover every penny to the new organization and carry on with their accounts. 	<ul style="list-style-type: none"> • Participants in Bangladesh cannot take their money with them to their new jobs and carry on with their accounts.

Table 2: Comparison of Retirement Provident Fund Between USA & Bangladesh

3.5 Ways Bangladesh Can Employ American Retirement System

- **Introducing retirement policies for private organizations:** It would be feasible to establish a retirement plan policy for private-sector workers. They will be able to maintain their standard of living during retirement. They will also be able to achieve financial security as opposed to those who are not covered by any retirement policies.
- **Introducing a TPA-like organization:** To create a pension plan, it requires an organization. The purpose is to mitigate pressure and in turn develop a trustworthy company to deal with people's money. As the USA retirement industry work with extremely sensitive data, they only work with fewer TPA firms that are accountable and ethical. Likewise, Bangladesh needs to produce a TPA-like organization who can be trusted with people's money.
- **Must have rules for HCE/NHCE:** Bangladeshi government must introduce rules to erase discrimination between highly paid workers and non-highly paid workers. The non-highly paid workers will be benefitted if these differences are mitigated.
- **Should encourage self-dependency:** If the legislator improves the retirement policies, then it will give confidence to the retirees in their old age. They need not depend much on their children or other relatives if they save the right amount of money.
- **Have more knowledge about their contribution:** Employees are expected to be more educated about their income and where it is being invested. If the retirement plan is being handled by the organization, then they can invest the money into something lucrative. The participants can then, in turn, profess interests and dividends by sharing their money by increasing income for everybody.

- **Should encourage Provident Fund:** Government can encourage banks to provide aid by giving incentives to new entrants. Bangladesh needs to develop a pension tool that is well-suited for people who have retired and allows them to follow the basic principles of humanity.

3.6 Resolving Retirement Plan Problems

We came across so many issues after having a brief discussion about Bangladeshi and American retirement plan policies. We must solve these issues and some of the solutions are as follows:

- America operates its retirement policy in compliance with the rules of IRS, DOL, ASPAA, and many more. Like the USA, Bangladesh must also rely on some dedicated organizations that work for the development of the pension policy other than just the government.
- IRS audits Form-5500 along with plan valuation. Likewise, financial reports that include assets and liabilities are scrutinized by the CA. On the contrary, Bangladeshi pension funds are not subject to auditing. This targets fraudulency and opacity in the pension system of Bangladesh. As a result, Bangladesh is in dire need of a regulatory body to monitor each and every activity.
- Employees of non-government sectors are offered no fixed retirement policy and only receive gratuity at retirement. Fixing these issues will help them gain more financial security in the society
- Both the 401k and employer contribution limits are increased in the USA for participants to deposit more money into their pension funds against higher returns during their retirement. In Bangladesh, the government sets up the pension amount which is unfavorable for most employees. Thus, this needs to be resolved.
- As mentioned earlier, discrimination in the Bangladeshi pension market exists, unlike the USA. In Bangladesh, higher designated employees receive higher pension amounts, whereas lower designated employees receive lower pension amounts. However, this is not always justified as the pay is significantly less.

3.7 Findings, Recommendations & Conclusion

- **Findings:**
 - Bangladeshi pension market is not structured
 - Not only can a retirement plan policy be a bout of hope for the elderly retired citizens but for their families as well
 - In Bangladesh only the public servants are protected under pension plans unlike private-sector workers
 - Provident fund of Bangladeshi private sectors is unable to invest somewhere profitable

- US government, unlike Bangladesh, examines activities of retirement plans using the help of various organizations.
- USA is far ahead ensuring a secured future of its retired population unlike Bangladesh

- **Recommendations:**

- ❖ **For Data Path:**

- **Appointing Apt Candidate:** A suitable candidate for this company is talented, tech-savvy, and capable of delivering effective communication with clients overseas since they will be interacting with US clients and advisors. The recruit must be educated enough about the US retirement and pension benefits, hence must take the training period seriously. The candidate must be tenacious enough to bear the workload that the busy season has to offer
- **Increasing Recruitment Advertisement:** Data Path Ltd usually posts its job circular online on social media. Since the number of clients is increasing at an exponential rate with each passing day, the demand of new recruits is also sky-rocketing. As a result, Data Path Ltd must utilize other modes of advertisement such as newspapers and other offline platforms.

- ❖ **For Bangladesh:**

- Focusing seriously on retirement plans, Bangladesh can boost its economic growth by bringing good fortune in the future. The employees of this country will be benefitted too as it will help them to maintain their standard of living even after retiring. Moreover, the discrimination issue that we face regarding working sectors will be annulled forever. In addition to that, bringing about strong rules and regulations can empower our retirement sector as it can spike the enthusiasm of the private sector regarding pension plans. I genuinely urge the government to take initiative to encourage private-sector organizations to maintain pension funds. Consequently, the pension amount must be altered annually as the cost of living soars each year.

- **Conclusion:**

Bangladesh is celebrating a huge outsourcing industry in recent times. Among all the outsourcing companies, Data Path Ltd has occupied a special space in the market within a brief period. The company seems to have a bright future ahead as increased USA TPA firms are paving their way to Bangladesh to advance their business processes. It is high time that Bangladesh learns from the American retirement industry and implements similar opportunities in this country till it is too late. Therefore, I urge the government to take vital actions to reform the existing retirement framework in the country.

The principles of accounting procedures of the retirement provident fund of the USA were very new to me. They are unique from what we were taught here in Bangladesh. These last 4 months have been remarkably interesting and challenging for me in terms of the set of

knowledge that I have gathered. It has truly helped me to broaden my horizon and I believe that Bangladesh would one day have noteworthy recordkeeping policies like America does to provide retirement benefits to retirees.

After the 4-month-long hands-on experience of analyzing the American retirement industry, I can conclude that Bangladesh has a lot to learn from America. I am not saying that we should replicate the whole American retirement scenario, but we can at least try to make the lives of our senior citizens better in their old age. Hence, we must start our preparation as early as possible.

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