Report On

USA's 401(k) and Bangladesh's Pension System

By

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17304161

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

BRAC Business School
BRAC University
January 2022

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:

<u>Faisal Mohammed Arko</u>
Student Full Name
17304161

Supervisor's Full Name & Signature:

_____
Supervisor Full Name
Designation, Department
Institution

Letter of Transmittal

Saif Hossain

Assistant Professor

BRAC Business School

BRAC University

66 Mohakhali, Dhaka-1212

Subject: Submission of Internship Report

Dear Sir,

I am extremely excited to submit you my internship report on the differences between United States 401(k) retirement plan and Bangladesh's Provident Fund. With the help your guidance and advice I was able to complete my Internship Report. By working for Datapath Ltd. I was able to gain the knowledge I needed to write this report.

I hope that my Internship Report will be up to your expectations and also be of value to our university archive.

Sincerely yours,

_____

Faisal Mohammed Arko

ID: 17304161

BRAC Business School

BRAC University

Date: January 20th, 2022

Acknowledgement

Executive Summary

Like most governments, the United Stated Government also provides retirement facilities it's citizens. They named their Retirement Plan the 401(k) plan. The plan is governed mainly by two separate bodies, The IRS, Internal Revenue Service and DOL, Department of Labor. 401(k) is a retirement plan designed by IRS and DOL and made compulsory for every recruiter to implement. The plan consists of various Retirement Benefit Plans which employers can choose from. The entire process of managing these plans are giving to Third party Administrators or TPSs. No employer is allowed to manage their own retirement plan. The company I completed my internship from in a TPA of such kind. Datapath Ltd is the backend office of a TPA in America known as July Business Services. Working here helped me gain knowledge about the TPA industry how it operates and how they overcame problems that they faced. From this report we are able to see what our countries retirement plans lack and overcome those lacking by leaning from the 401(k)-retirement plan.

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List of Acronyms

IRS   Internal Revenue Service

DOL   The United States Department of Labor

RK   Record Keepers

ASPPA   American Society of Pension Professionals and Actuaries

BPO   Business Process Outsourcing

TPA   Third Party Administrator

QKA   Qualified 401(k) Administrator

HCE   Highly Compensated Employee

NHCE   Non-Highly Compensated Employee

Chapter 1

Overview of the Internship

1.1 Student Information

Name: Faisal Mohammed Arko

ID: 17304161

Department: BRAC Business School

Major: Computer Information Management (CIM) and E-Business.

1.2 Internship Information

1.2.1 Internship and Company details

The organization I worked for is Datapath Ltd. Unlike normal internships which has a 3-month period my internship at Datapath was a 4-month extensive training program. This is because the work here at Datapath is completely new as it is an US based firm, also they intend to recruit interns as their permanent employee after the internship period. The extra month gives them time to evaluate us more thoroughly and most importantly train us.

I was recruited as an intern for their BPO Department. Which works by providing services to other TPA's according to their criteria. These services include anything or everything a TPA might need to completely process a Company's 401(k) Plan.

Datapath Ltd. is located at Ambon Complex, 99 Bir Uttam AK Khandakar Road, Mohakhali Commercial Area 1212 Dhaka, Dhaka Division, Bangladesh.

1.2.2 Supervisor Information

At Datapath Ltd. I had three supervisors overlooking and evaluating my internship. Mr. Shahadat Hossain, our department manager is also an Assistant General Manager of Datapath.

After him, Tahsin Ali was my on-site supervisor who is a senior executive at the organization and was responsible for my training.

1.2.3 Job Scopes

The internship period was divided into three parts that at the beginning every intern received the same training which are the basics guidelines set by IRS. After the initial training was done, interns were appointed to specific teams where they are given training according to their team's requirements. And lastly interns are given live plans to work with under their supervisor's supervision. Every team has a unique was of working as they have different criteria to fulfill. I worked for a team called (APA/DF), named after our client's names.

My job at Datapath had several steps to it and how it was completed, all the steps are briefly described below.

Plan Setup: The very first thing that we had to while working on anew plan was to set up on our proprietary software called "DataAir." During this time, we import the latest saved profile of our plan into the software and crosscheck if all the requirements from the Plan Document are set properly on it.

Census Check and Import: After importing the plan we prepare an employee census provided to us by the sponsor of the plan and cross check all the data with prior year information, if any irregularity is found the client is immediately notified and asked for further guidance. Some logical tests are also performed manually to check if everything is in accordance with the IRS guidelines. And finally, the information is imported in DataAir.

Contribution Calculation: After the census has been imported, we calculate the contributions the employer wants to provide following IRS rules and regulation. Contribution is the amount of funds being funded into the retirement account by the employee and employer together.

<u>Fin Import:</u> Afterward, all financial information of the funds that are invested into the market are collected from various Investment Institutions and imported into DataAir. This information includes gain loss, fees or any other income generated from the invested funds the account.

<u>Reconciliation:</u> After all the data has been imported DataAir is set to calculate all the funds and status of the plan. Finally, reports are generated from DataAir. Which are used to reconcile this year's information with prior year receivables.

<u>Trust Accounting and 5500:</u> Finally, a trust accounting report is prepared which contains information generated and submitted to the IRS using the 5500 forms.

1.3 Internship Outcomes

1.3.1 My Contribution to The Company

As an intern my contribution to the company was not that huge. Yet I did as much as I could to contribute to the company. Till now I have worked in several live plans and prepared several statements for my team. A live plan includes all these steps,

1. Plan Setup

2. Census Checking and Import

3. Logical Test Check

4. Contribution Calculations

5. Financial Data import

6. Reconciliation

7. Trust Accounting

8. 550 Form Submission

All these steps together is known as Plan Processing and during this 4-month period I have learned how to do these and lastly implement them on live plans.

1.3.2 Benefits to the student

Working here at Datapath has taught me a lot of things the most important one being the skills of a 401(k)-plan administrator. The job that I did here as an Intern can be turned into a full-time profession. The skillsets required to be a plan administrator is quite difficult to learn, but with the help of the organizations supportive team and environment to learn I was able to learn the difficult easily.

Secondly, my ability to strive under pressure was also tested and brought up to a new height as Datapath had to work with the US fiscal year and other deadlines set by IRS we were always under a lot of pressure on getting a lot of work done in a short period of time. Initially the pressure was not too overwhelming as my supervisors slowly put more pressure on me gradually which helped me come with solutions on how to cope with it. This helped me be more flexible and agile even when I am under a lot of pressure.

Datapath heavily depends on Microsoft Excel which gave me the opportunity to learn excel at an advance level. After using Excel extensively for 4 months I learned a lot on how to use it more efficiently and effectively.

Another thing that Datapath taught me is to be responsible for my own work, usually when an intern makes a mistake their supervisors are the one who are held responsible to the superiors of the organization. But here I was held accountable for all my actions and work too, any mistakes or achievements were directly handled by the department leader himself and me. This helped me improve the accuracy of my work and also helped me achieve a sense of accountability.

I also can take criticism more positively now after this experience. My supervisors were extremely cooperative and empathetic towards me. Through their actions I learned that I am bound to make mistakes but learning from those mistakes and making sure that I do not repeat

them over and over again has given me the ability to take criticism positively. After my time here I look at criticism as scopes of improving instead of being demotivated by it.

Time management and punctuality is also something that I learned a lot about here, at Datapath we get tasks assigned to us daily with similar deadlines. Not completing them on time creates problems not only for me but also my other teammates who are often rely on me. Similarly, being late was also not an option as delays effect the entire team. From this I learned to be more efficient and punctual at the same time.

Lastly, being a university student, I never had any experience regarding the professional environment of a workplace. Being able to work so closely with an organization works with US clients helped me gain knowledge about a professional workplace environment. Being able to adapt to any work environment with any type of people is something I struggled with before. But Datapath showed me ways on how to be more dynamic and adaptive. Workplace etiquettes and maintaining the chain of hierarchy is something I read on texts books before but being able to experience them firsthand truly gave a different meaning to them.

1.3.3 Problems faced

Working at Datapath has been a wonderful experience for me. My superiors and colleagues all made sure that I did not face any issues while working there. But unfortunately, some things were still inevitable, and I did face some issues.

The most prominent one being the slow internet connectivity. Since we work for US based clients, they provide us with remote desktops where we need to work and often times the slow internet connections make working on remotes computers extremely difficult. There were moments when a small tasked needed hours to complete because of this. This problem did teach me to be always prepared for the worse and helped me overcome my procrastination issues.

COVID-19 made many American's start retirement plans which stimulated the retirement industry and made it grow at an exponential rate. We are getting new clients faster than we can

cater to. Datapath responded to this growth by swiftly hiring more recruits. This raised another issue of spacing all the new employees.

Lastly, being my first time working for any professional organization I found it quite troublesome to balance my personal and work life. I had to work at least 9 hours 5 days a week to complete my daily target. This sudden change made me adjust me entire routine according to which was difficult to adjust with. But later as time went by with the help of my supportive superiors and colleagues, I was able to adapt to this new lifestyle and overcome the problems I faced.

1.3.4 Recommendations

As an intern I would like to suggest the following changes to the company regarding their internship program.

1. Improve their internet connections, as the business is completely reliant on internet connections, Datapath could improve their internet connectivity as it will improve the company's efficiency and productivity. Employees will also be far less frustrated over connectivity issues.

2. Datapath can try to improve their expansion strategies, Better pre planning before expanding rapidly can ensure better expansion with the most effective rates of return from the expansion.

Chapter 2

Organization Part

2.1 Introduction

Retirement plans are there to help the elderly when they are no longer able to work and provide for themselves. Similar to that of The United Sated 401(k) retirement plan, Bangladesh also has their own retirement plan generally knowns as the provident fund. But the 401(k)retirement plan is far more advance and mature than Bangladesh's Provident Fund. The intension of this report is to compare the two retirement plans and implement changes that can improve our provident fund plans.

The 401(k) Retirement plan is a comprehensive well revised retirement policy developed by IRS, DOL and ERISA to help the retired citizens of US. The plan not only helps its benefiters save money but to grow that money with time by reinvesting it into the economy helping both the benefiter and the economy. For security purposes, no organization is allowed to process their own plan, these plans are handed over to a third-party body for processing them. These third part bodies are called TPA's. Now it is mandatory for every employer in the United States to have a 401(k) plan for their employees. Moreover, since the rules and regulation set for maintaining the plans are extremely complex and in dept, chances of misusing retirement policies for personal benefit is very difficult if not impossible through legal means.

2.2 Overview of Datapath

2.2.1 Origin of Datapath

Datapath Ltd. is the backend office of a TPA located in USA called July Business Services. Datapath handles all operation related activities of July Business Services while all other activities are handled by its parent company in USA. Initially going by the name "Texas

Pension Consultant" in 1994, John Humphrey and Jim Hudson founded today's July Business Services. As of today July Business Services has more than 5000 clients with 120,000 plan participants managing assets worth more than $6 Billion.

Datapath Ltd was established in 2006, Jim Hudson and John Humphrey along with Ashfaqur Rahman started Datapath Ltd. Before that all operational activities were handled in the United States office. Initially Datapath only had 6 employees who were trained by John Humphrey and Jim Hudson themselves. Later on it expanded and started to handle July's operational activities. Then in 2015 the company decided to outsource their resources to other TPA's that needed it. Many TPAs in the US say this as an opportunity to outsource their work and took advantage of it. Now Datapath not only works as the operational office of July Services, our BPO department currently caters to more than 20 other TPAs. Now Datapath alone has more than 200 employees working for both July and the other TPAs.

2.2.2 Mission and Vision Statements

July Business Services vision is to be the best Retirement Plan Administrator in USA. And their mission statement "Is to provide financial advisors and plan sponsors the power to choose the retirement plan solution that best meets the goals of business owners and their employees by delivering refreshingly responsive, unbiased, reliable plan design, administration, record-keeping and consulting that encourages saving for retirement" (July Services, 2022).

2.2.3 Core values

Core values allow everyone at an organization work towards a similar goal. Datapath set some core values for itself, which are listed below.

- Focuses on a more design centric thinking.

- Team efforts are prioritized.

- Find solution Pro-Actively.

- Committed towards its employees.

- Promote Accountability.

2.2.4 Objectives of Datapath

Objectives are set by organizations to help them reach their goals. Similarly, Datapath Ltd set a few objectives for them to achieve. The most frequent objectives are,

- Increase the number of TPA clients for our BPO department to 25 by the end of 2023. As of 2021 Datapath Ltd.'s BPO department has successfully secured 20 clients.

- Be self-reliant on retirement plan management software like DATAIR, ASC and Relius. Currently Datapath shares licenses between users and uses remote desktops of our clients to use these software's.

- Lastly, develop their own retirement plan management software up from the ground with the help of their dedicated Software and Technology team.

2.2.5 Key Partners

Being the operational office of July Business Services, both Datapath and them has the same strategical partners. Some partners are brough in through July Business services themselves while some are brough by Datapath. Either way all strategical partners are considered as assets as they play a huge role on how fast we can achieve our goals.

1. Other TPA Clients, will have to be the most important partner category of Datapath Ltd. Bring the first TPA to outsource their plan processing out of the States July Business Services saw huge success in this. But the cost and time needed to venture out to another country is very high. When July realized that they had the asset and

manpower to Provide a similar Service to other TPA they took the opportunity. Currently the BPO department alone has 100+ employees with it being the highest revenue collector of July Business services and Datapath. This was only possible because of our loyal and valuable clients who not only used our services but also further recommended it which aided in our rapid expansion.

2. Record Keepers are companies that keep track of retirement plan accounts. Reinvested gain/loss, fund contribution withdrawal deductions all are tracked by record keepers. They work like specialized banks for retirement plan fund management. It is made mandatory by law that all funds must be kept at RK's to ensure transparency and security. TPA firms keep track of all funds and maintain the retirement activities while the actual money itself is kept at RKs. Some RKs that Datapath closely work with are,

   a. John Hancock

   b. Mass Mutual

   c. American Funds

   d. Ameriprise

   e. Charles Schwab etc.

These RKs provide us with statements that help us track all fund activities for each account. Keeping a close relationship with them has proved to be extremely helpful for the company. Without their closely integrated cooperation our work as a TPA would have been much slower and troublesome.

2.2.6 Organization Hierarchy

Datapath uses the same Organizational hierarchy for all its departments. Every Department has an Assistant General Managers who report to the General managers of the company. Under each A.G.M of every department we have an Assistant Manager who is responsible for several Team Leaders. Under the team leaders we have Senior Executives, Executive, Junior Executives and Trainees.
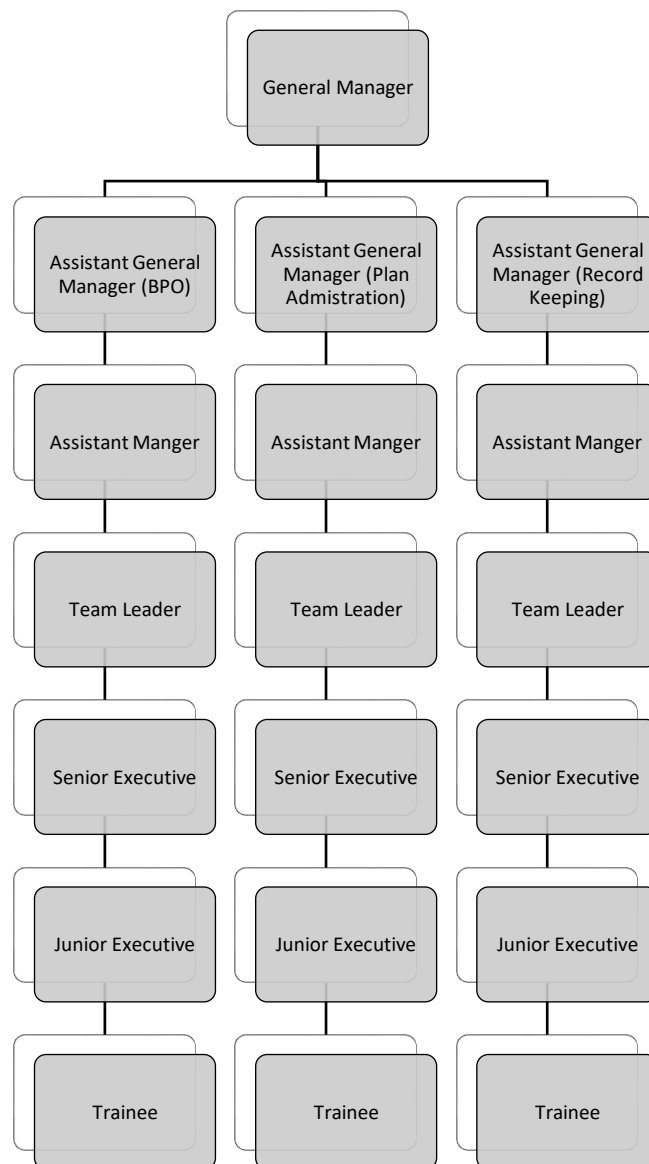
Figure 1: Organizational Structure

2.2.7 Customer Segment and Service Provide

Although Datapath originally started as an operational office of July Business Services, now it's main focus is on the outsourcing its capabilities. Datapath's target customers are the TPAs of USA who need cheap and reliable retirement plan processing. Currently Datapath is working with 20 other TPAs including July Business Services.

Datapath Ltd. provides an entire suite of Plan Processing for their clients. Clients can choose any specific service, a few or even all that Datapath offers. The Services that we provide are given below in sequential order of Processing a retirement plan.

- Plan Design: The very first stage of starting a 401(k) Retirement plan is the plan design. Here, employers consult with our New Business Team who clarify them about the plan and everything that is related to a 401(k) plan. This is generally a consultation session for customers who want to start a retirement plan but does not know how and what to do.

- Plan Setup: Whenever a client is ready to start a new plan everything is documented in black and white and approved. A complete plan setup include the following steps.

  o Paperwork: Whatever a client wants is filled in a form and saved. These documents keep track of what the client wants and how they want it. This document once signed and verified initiates a service agreement between Datapath and the client.

  o Plan Setup and Transfers: Datapath offers every possible service that a plan coordinator might need to get started or even in change their Plan Administrator. Services like enrollment coordination, contribution submission, asset transfer etc. all are available at Datapath.

- Plan Administration: With the help of several industry experts and experienced 401(K) consultants Datapath's Plan Admiration team services are the main offers of Datapath.

  o Plan Processing Services: Datapath offers its clients with full plan processing services. Clients can choose from Eligibility calculation, contribution allocation, Vesting determination, Loan processing and distribution operations.

  o Non-Discriminatory testing: One of the things that the IRS paid most attention to is in making sure that no one can be discriminated in the 401(k) plans. Thus every plan has to go through rigorous compliance testing. Datapath offers all support for all the testing with follow-up support. We offer services for Top Heavy, ADP/ACP, Minimum Coverage and General Non- discriminatory testing.

  o Tax Compliance: Every 401(k) plan needs to be submitted for Tax Filling and Datapath offers to complete all types of fillings related to 401(K). Form 5500, 1099-R and 945 are offered by Datapath.

  o Record Keeping: This is a new service being provided by Datapath and July Business Services. Record Keepers are the account management bodies of the 401(k) plans. Our service offers daily valuation, quarterly statement publications and also dedicated access to plan processors.

- Individual Plan Processing: Usually most 401(k) plans are sponsored by employers or organizations. But Datapath also caters to individuals who runs an independent businesses or family run businesses who want to maintain a 401(k)-retirement plan.

2.3 Management Practices of Datapath

2.3.1 Leadership Style

Datapath Ltd. follows a democratic way of leadership. This is done so to make decision making more accurate and problem solving faster. Whenever any team is stuck with an issue or a problem the issue is shared with everyone within the team. As everyone looks at the same problem is different ways and approach to solve them using different techniques several solutions to a problem can be found easily. Here ta Datapath teamwork is encouraged, and all teammates are in one way, or another depended on each other which makes the teams work cohesively and also make decisions together which further shows the democratic nature of the management. This system also reduces arguments as most decisions are taken based on everyone's opinion. Because of the very nature of the leadership style chosen decision making might take some time but the results are often accurate.

2.3.2 Human Recourse Planning

The very nature of the jobs available at Datapath make it impossible for them to hire experienced employees. Datapath hires Interns only which they train and hire into fulltime employees. Only the IT, Software Development and HR departments are able to hire people with experience and does not have to reply on interns only. They also hire only when they need new employees for specific posts. Their recruitment process is slightly different from most organizations in Bangladesh as they recruit based on analytical and computer technical skills. The most important factor that plays a role in recruiting is the candidate's willingness to stay at the company for an extended period of time. As most interns only receive training the entire period Datapath has to invest in candidates who will stay at Datapath and recuperate the investment made during this period.

2.3.3 Compensation System

Datapath's compensation system works on yearly appraisal raises from a base salary for each designation. Every designation has a base salary that all employees of that designation will get but every year an appraisal decides that will be their compensation for the next year and so on. Interns are paid an allowance of 8000BDT while he starting base compensation for an employee is 25000BDT. Employees also receive quarterly bonuses based on their performance and work completed. Usually appraisals are based on how efficient and effective an employee has been during work year.

2.3.4 Training and Development

At Datapath the very nature of the work makes the entire job a learning experience. Everyday employees face a new challenge or problem which makes them learn new ways to solve it. But Initial training for all the employees remain same as the basics are guild lines set by IRS and DOL. Generally employees are only taught things that they need to complete their task at their team. This creates lots of gaps in their skill development but gets the job done as fast as possible. And if any specialized training is needed for a new client or for something that was not taught before, Datapath resorts to training sessions and exams to educate their employees.

2.4 Industry and Competitive Analysis

2.4.1 Industry Analysis

Datapath Ltd. is a part of the outsourcing industry of our country. Companies from USA generally for cost cutting outsource their work to countries with cheaper labor. As the Retirement Plan Industry in US extremely complicated and diverse it requires highly skilled employees to operate properly. This very difficult nature of the job made it a high paying job in USA. For which many TPAs outsource their activities to other places. Datapath Ltd is the

first and one of two outsourcing firm in Bangladesh who offer retirement plan processing facilities. Datapath has the highest number of clients in Bangladesh in this industry.

The outsourcing industry is an ever growing and expanding industry. Especially the retirement plan outsourcing one. Because of the recent pandemic Americans are saving more and investing more into retirement plans which makes this one of the most lucrative outsourcing facilities to provide right now. Datapath alone secured 5 clients in a single year which was never possible before. The TPA industry is a billion-dollar industry that Bangladesh can tap into and unlock millions of potential jobs.

2.4.2 Industry Competitiveness Analysis

Using the Porters Five forces we are able to access the competitiveness of the industry Datapath Ltd. is operating on. The industry Datapath operates on is the Outsourcing one but in a very specific segment of the outsource industry which is the Retirement Plan Processing Segment.

<u>Competition in the Industry:</u> For Datapath Ltd the only rival organization they have is "Fin Source". Fin Source was founded by a group of employees who left Datapath. Being the early initiators of this industry Datapath has the lead over Fin Source in every possible sector. Apart from them Datapath has no other competing firm in the industry.

<u>Potential Of new Entrants:</u> The retirement outsourcing industry is not an easy industry to enter. This industry needs a large of highly skilled manpower. Over that since the industry is closely integrated with the US industry, it is impossible to find existing skilled employees, for which lengthy and extensive training sessions are required to prepare the workforce needed. Also, as all tasks are done remotely, and the information being handled is extremely sensitive the initial cost of setting up the infrastructure is also very high. And lastly, the most difficult barrier to overcome is gaining the trust of other TPAs. The retirement plan industry works with a lot of

sensitive and personal information, TPA's cannot simply just entrust such information to anyone. For which it is very difficult for new firms to start.

Power of buyers and Suppliers: In the retirement plan outsourcing sector, relationship between the buyers and suppliers are not that visible. The TPAs themselves are the suppliers as they provide the work to Datapath and also the buyers since they pay of the service they receive. For a firm like Datapath they can keep balance while it comes to buyers and suppliers' power is by being a better and reliable service provider than others and keep the buyers and suppliers on their side.

Threat Of Substitutes: One of the biggest threats for the retirement plan outsourcing industry is technological advancement, specifically software's. Many firms are trying to automate the process of with the help if software's which can be operated by anyone who has little expertise about the Retirement Plans. Other than this there are no other threats to this industry. But according to many experts in this industry they believe that even software cannot replace human intervention as these plans are unique to every scenario.

2.4.3 SWOT Analysis

A SWOT analysis is done to evaluate a company's strengths, weaknesses, opportunities, and threat that it might have in their particular industry. A comprehensive SWOT analysis of Datapath Ltd with particular focus on its Strengths to identify its competitive advantage is given below.

Strengths: Whenever we are evaluating the strengths of a company they are divided into types of strengths, Common Strengths, Imitable Strengths, and Distinctive ones. When analyzing the strengths of Datapath Ltd. We found that common strengths that other firms might have with us is the availability of cheap and good labor for running the business. Any new firms that might enter this industry will have access to the same pool of workforce that we at Datapath

has. Which is directly related to the cheaper rates that Datapath can offer to their US clients. The use of reliable and secure software also falls under this category as any other firm out there has access to the same technology as Datapath does. Now if we look into the imitable strengths Datapath a large skilled workforce that has years of experience in this field. This s major advantage that Datapath has but can be imitated by other firms with the right training and time invested. And lastly, when we look into the strengths that are distinctive to Datapath alone it is their gained trust in the US Retirement outsourcing market. Their only competitors Fin Source has been trying to achieve this for a long time but is unable to do so.

Weakness: The weaknesses that the organization has be overcome with a time and investment, but for now Datapath has the following weakness that was identified.

- Unavailability of trained and experience workforce. Being a completely different sector. It is almost impossible to Datapath any experienced workforce in Bangladesh's market. Everyone they have is trained by them which is the only way to get manpower for this industry.

- A huge amount of investment is needed to keep daily operations at full efficiency. The software's needed to maintain the retirement plans are rated in at thousands of dollars per licenses and the IT infrastructure maintenance is also very high. This makes it very difficult for Datapath to work at full efficiency most of the time. As most employees are sharing the software's licenses.

Opportunities: Being a completely new industry that is yet to be tapped by the Bangladeshi market. This industry has innumerable opportunity to grasp. The most prominent one would be the opportunity of growth currently Datapath has no limit to how much they can grow and expand. This growth is only limited by Datapath capability itself. Currently Datapath had to turn down several new clients as they did not have the capability to cater to them. Another

thing that stands as an opportunity to Datapath is that they can initiate new strategic partnerships with several internationals firms who are working in industry. And lastly since the entire industry is depended on the US economy and their condition local economic instability cannot affect it in any way. This can be capitalized more by depending more on remote solutions over local ones.

Threats: The biggest threat that Datapath has that they have power of their clients whatsoever. The outsourcing industry is heavily depended on the clients and if they decide to back out after the end of a contract Datapath will have to scout for new clients. Another threat is that being a new market many new competitors might try to enter this sector seeing the success of Datapath. Which will create competitive pressure for Datapath that they do not have to face now.

Chapter 3

Project Part

3.1 Introduction

3.1.1 Background

Datapath Ltd. Is the operational backend office of July business services. July Business services was founded by Jim Hudson and John Humphrey who are CPAs specializing in the retirement plan industry. The Retirement plan industry has its own specialized degree called the QKA, every TPA needs to have QKA certified consultant at their firm to operate. Because of the very high average pay in USA for a QKA July Business Services decided to outsource their operations to reduce costs. July Businesses had to train an entire team of recruits because knowledge needed to run a TPA in Bangladesh is not taught here. With 6 highly ambitious individuals and 2 years of training July Business Services was able to set their operational office here in Bangladesh. Later Datapath saw the potential to initiate new business with other TPAs which they took advantage of. Now they are the biggest Retirement Plan Outsourcing firm in Bangladesh. Now Datapath Ltd has 7 QKAs working at Datapath as Lead Consultants. Other than that Datapath also gives its employees the opportunity to transfer to July Business Services in USA.

Now Datapath is not only the operation office of July Businesses but a BPO firm for 20+ other TPAs who have outsourced their operational needs to Datapath. With the recent pandemic this number in increasing at a drastic rate that no one could have predicted. I was recruited as an intern for their BPO Department which gave me the opportunity to learn about this vast and diverse industry that Bangladesh's Outsourcing industry is recently experiencing.

3.1.2 Objectives

The main objective of this report is to know about the 401(k) Retirement Plan and Bangladesh's Retirement plan. This helped us to find the difference between the two plans and how they benefit its users. Also, after comparing the two plans we can identify issues with Bangladesh's Retirement Plan and compare them to its US counterpart and find solutions to those problems.

3.1.3 Significance

Bangladesh is slowly entering a phase where a large portion of its population is going to retire or will retire in the next 10-15 years. Unlike other countries we do not any proprietary retirement benefit plan for every citizen. The retirement plans are mainly available for government employees. This makes a huge chunk of the retired population vulnerable in their future.

As most of the private service holders are derived from retirement benefits, they opt for other options that may help them in their future which often hampers their quality of life. This is one of the factors why people say that Bangladesh lacks social security.

Firstly, the biggest issue that I found while comparing the two policies is that Bangladesh does not have any regulations that make it compulsory for all organizations including private ones to have a retirement benefit plan. Some private organizations do have these retirement plans, but they are not regulated and are designed in such a way that it helps more at employee retention than to benefit them in the future. Even the Government Pension Plans are not properly planned and has many short comings. Discrimination is between the highly paid employees and non-highly paid is also much prominent in Bangladesh as there is no regulations regarding it. Most importantly the lack of a proper regulatory or monitoring body makes these plans questionable at times.

United States on the other hand with years of experience through trial and error has overcome these issues in their 401(k)-retirement plan. They have found ways to benefit all parties while regulating discriminatory factors. Not only that, they made it compulsory for all employers to have a retirement plan but not for all employees to participate in them. They also added various tax benefits to encourage people into participating in these plans.

With the help of this report not only will we be able to see how a developed country tackles retirement issues but also learn and implement them in our very own plans and improve them. This study might also help us prevent future issues that we might face beforehand.

3.2 Methodology

For conducting research and completing the report I used two methods for collecting data, which would be,

- Observation

- Questionnaire and Surveys

Through observation we can identify their differences between the two retirement plans and have an in-depth understanding of the two retirement plans. I will observed the way the plan operate and provide benefit to its users. By knowing how they operate I am able to compare the two plans and find the differences between them which will help me find improvements which can be suggested for our countries own retirement plan.

 And lastly, by asking the people who are using Bangladesh's retirement policies or not even getting any benefits we can identify the issues that we have with our system. Only after finding the issues I will be able to look into the 401(k) Retirement Plan and try to find solutions from that system.

3.3 Findings and Analysis

3.3.1 Questionnaire

A questionnaire was used to collect data for the research paper, the questions within the questionnaire are,

- Does your organization provide any retirement facilities?

- Does your organization contribute any money for your retirement?

- Is your organization fully transparent about the money they deduct from your salary for the provident fund?

- Do you think the Bangladeshi government should be concerned about the retirement/pension of people working in the private sector as the public sector?

- Would you like to get retirement plans in Bangladesh where you get to contribute up to a certain limit and your employer contributes on your behalf by following different methods which are compulsory and regulated by the government irrespective of your service sector, and your money is invested in the right place so that you get the maximum benefit of it?

- Do you think if the above-described retirement system is conducted in Bangladesh it would be more beneficial as a retirement plan for your future?

When asked if Bangladesh's government should be concerned about the private sectors retirement 94% agreed that they should.
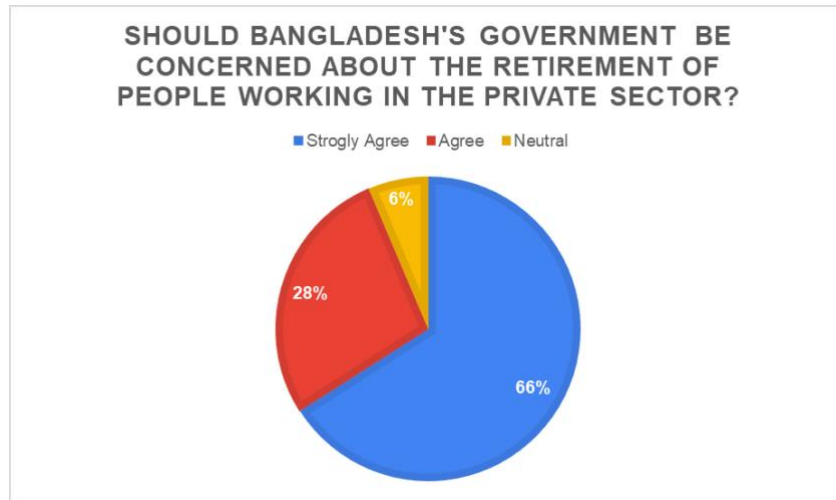
Lastly, when asked if they would like a retirement plan similar to that of USA's 93% of the participants from the survey agreed while 7% had neutral opinion regarding it. None of them had any negative impressions about the idea.
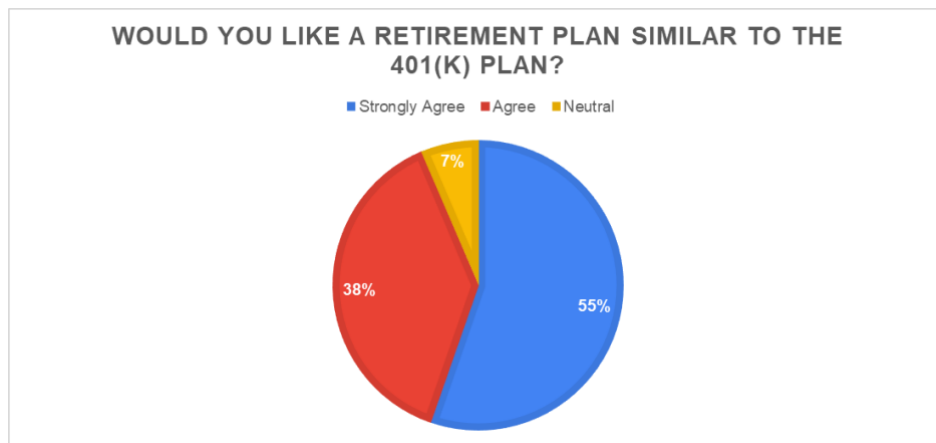
From the information collected and by observing the participants eagerness it can be concluded that Bangladesh's retirement facilities can improve a lot more and adapt from USA's 401(k) plan.

3.3.2 401(k) Retirement Plan

After working at Datapath and consulting with my supervisor I was able to learn a lot about United States retirement benefit plan. The plans are divided into two categories. These are The Defined Benefit Plans and Define Contribution Plan.

The Defined Benefit Plan is quite different from a defined contribution plan. In a contribution plan the funds allocated for the participant are paid within a time period maintaining several guidelines. But in a defined benefit plan a specific amount of pay is promised at the time of retirement. Gain losses on the amount are assumed and predicted. The participants are also paid in a series of payments after they retire and does not have the option to withdraw the entire sum of money at once. This is also known as life annuity as it ensures a stable flow of income for a retired individual. Another thing to keep in mind is that these plans do not maintain any account as the amount with actual funds in it, rather it follows a bond or an agreement which ensures the retirement money to its receiver.

Defined Contribution Plan is the second type of retirement plan that USA has. This is now the most popular and most used retirement policy of USA. We will be focusing on this type of retirement plan for this report. The defined contribution plan works on contribution basis. That is the amount that is saved for the plan is contributed by the participant and their employer. The premises are set based on the rules and guidelines set by IRS and DOL. Every individual has an account to their name were depending on the plan requirements and specifications funds are deposited into these accounts.

The funds saved in these accounts can be reinvested into the capital market to increase its value but the participant themselves will have to bear the risk of the investments result in a loss. An example of a Defined Contribution Plan is given below for better clarification.

Mr. X has a defined contribution plan at Organization Z and as per the Plan Document (The Guidelines of a Retirement Plan) he can contribute his compensation to his retirement account. Organization Z will also contribute alongside his contribution.

Mr. X's Contribution.   - $1000

Organizations Contribution   - $500

Gain/Loss from the Capital Market   - $300

Final Balance of the account.   - $1800

Here, the contribution of the employer is the benefit being provided by the organization to the participant. These plans also make the employer free from any losses that the account might face from the capital market.

3.3.3 Categories of Defined Contribution Plans

In order to satisfy diverse requirement of various employers and their needs there are many types of defined contribution plans that serve different purposes. These different types of plans define the type of contribution allowed for them. They are as following.

- General 401(k) Plan

- Profit Sharing Plan

- Safe Harbor Plan

3.3.4 General 401(k) Plan

This the most commonly used plan is the 401(k) general plan also known as the Salary Deferral Plan. This type of plans has some specific types of contributions allocated specifically. The

main one being the participants salary contribution. The types of contribution allowed in this plan are

Elective Deferral: The contribution done on behalf of the participant themselves is known as elective deferral. This contribution has a limit set every year based on various indexes as of 2021 the limit is 100% of the employee's compensation or $19,500 annually. Any contribution made from this section are subject to be taxed when withdrawn as income taxes are not deducted when the amounts are funded from a participant salary. There is also another slight variation of this contribution known as Roth Deferral. This simply implies that the money being contributed to the retirement account has been taxed before it enters the account, and the withdrawal account is also exempted from taxes. This type of contribution prove the beneficiary with tax reduction bonuses as they are not taxes on the Gains made from investing in the capital market. And lastly, to further help the ones who are closer to their retirement age, which is 50 (set by the IRS) get to contribute an extra amount of $6500 extra over the $19,500 limit. This extra amount is also adjusted annually like the deferral limit. This is given to elderly employees to save extra money.

Matching Contribution: In the general 401(k) plan, besides the participants own contribution, their employer can also contribute to their account as an extra benefit. This contribution from the employer is known as matching contribution. Like all other contributions this also has a set of eligibility requirements that need to be fulfilled before one can receive this contribution. This contribution is called an elective contribution as employers give this contribution based on the contributions made by the employee themselves. Employers can set up matching formulas which they follow to contribute. For example, an organization use a formula that lets then contribute 100% up-to the 10% of an employee's compensation. Which means an employee earning $1000 compensation will get matching contribution of $100. Both the

percentages of the formula can be adjusted according to the employee. They can also tier the formula to provide a more in-depth amount of contribution.

Non-Elective Contribution: Lastly as the name suggest this is a type of contribution that does not require any contribution from the participants to be eligible for. The employer can give a set amount or percentage of contribution to the employee based on their compensation.

This type of contribution is generally subject to nondiscriminatory tests as high-level employees and owners usually have higher compensations compared to the non-highly compensated employees. This type of contribution is completely optional for any organization but if they decide to use this their retirement plan has to pass set nondiscriminatory tests.

3.3.5 Profit Sharing Plan

Profit sharing plans are there to reward the employees with a cut from the profit the organization made. The amount allocated for this plan can be determined in two ways. First being based on compensation where a set amount is allocated by the employer and distributed among all the employee weighed on their compensation. Or the employer can fix a percentage for every employee compensation on which they receive their funds. This type of plan gives the business or organization the freedom to contribute based on their financial performance and the flexibility to not do so.

3.3.6 Safe Harbor Plan

Safe harbor retirement plans are exactly the same as the general 401(k) plans. The only differences is that in place of Matching Contribution employees contribute safe harbor match which is a 100% vested that is the employee does not have to fulfill any requirement to be eligible to receive the money. As this contribution is in favor of the employees, adopting a safe harbor plan exempts the plan from some nondiscriminatory tests. Safe harbor match is calculated based on 3 formulas.

- Safe harbor Basic match: This type of match is the same as match only with a formula fixed. The formula is 100% up-to the

- first 3% of compensation and 50% up to the next 2% of compensation.

- Safe harbor enhanced match: Enhanced match gives the employers more flexibility and lets them pick any formula for determining the contribution amount.

- Safe harbor 3% non-elective match: Works like normal non elective contribution, where the employee does not need to make any deferral to get this match. Every eligible employee is given 3% of their compensation as match.

3.3.7 How the 401(k) Plan Work's

Now that we know about all the types of 401(k) plans let's look into how these plans work. The plan starts with all the employees in the organization. By default all employees are not eligible to participate in a plan. Certain requirements are set by the employer maintaining the guidelines provided by IRS and DOL. An employee can only be eligible to participate when he/she fulfills the eligibility requirements. Generally these requirements have three parameters, the participant's age, their work hours, or time and lastly the group they belong to. Requirements can vary from plan to plan but they have to be within the limits set by IRS.

Upon fulfilling the requirements an employee is considered to be an eligible participant of the plan. Only an eligible employee can contribute funds to their account and get benefits from the retirement plan.

An employee after being eligible to participate in the plan can then contribute based on the plans allowed contributions. Their contributed funds are added to their and invested as they want to. But not all contributions are readily available for the employee to withdraw at their will. Contributions made by the employer are contributions subject to vesting. Vested

Contribution is the funds that are "owned" by the participant. An employer can put time restrictions on the funds they give to the employee. Generally it is calculated in years of service provided to the company. Here again IRS has guidelines on how strict these vesting rules can be. For example, an employee's account might have $1000 in total funds were $500 is the employees and $500 is given by the employer. From the $500 given by the employer the employee will have to work for the organization for a set period of time to "own" the money given to this account. It should be taken into consideration that any funds added by the employee themself is always 100% vested and can be withdrawn at any moment.

At the end of every year, all the funds accumulated in the accounts are calculated and reconciled. During this time the IRS made it mandatory for all retirement plans to be evaluated by TPAs. This is done to make sure that employers are not using these plans to only benefit themselves and neglect the other employees in the plan. This step is known as testing. There are several tests that plan needs to pass in order to move forward to receive tax benefits. Some of these tests are,

Top- Heavy Test: This test is used to use to see if assets in the plan are evenly distributed among the key employees and non-key employees. Key employees are employees who have a more than 5% ownership status at the organization or an officer status. If the plan assets of the key employees exceed 60% the plan is considered as Top Heavy, and the employer will have to pay a certain contribution to all non-key employees next year.

Ratio percentage Test: This test is done to make sure that the plan is benefiting the no highly compensated employees of the plan and not only the highly compensated employees. They are also referred to NHCE and HCE respectively. The percentage of NHCEs being benefited from the plan cannot be less than 70%.

Average Benefit Test: This test works as a backup for plans that fail the Ratio Percentage Test. Whenever a plan fails meet the minimum 70% NHCE Benefitting threshold based on the number of employees they have the threshold is lowered. This is done to help plans which have fewer employees and most of them are HCEs. Law Firms are examples who use the average benefit test instead of the ratio percentage test.

Non-Discriminatory Test: Lastly, every plan has to pass 2 nondiscriminatory tests called ADP and ACP tests. These tests make sure that the HCEs contributions made every year are within limits set by the IRS. ADP and ACP stand for Actual Deferral Percentage and Actual Contribution percentage. This prevents HCEs from contributing unlimited funds to their retirement account as generally they have higher compensations compared to NHCEs.

Now, if a plan fails the nondiscriminatory tests IRS has given the plan sponsor or the employer two options to deem it as passed. They can either add additional contribution to the NHCEs until the plan passes or take a refund of the extra amount contributed by the HCEs. Also, Safe Harbor plans are exempted from nondiscriminatory tests as safe harbor plans provide extra benefits like 100% vested employer contribution to the NCHEs.

3.3.8 Bangladeshi's Retirement Plan

Like every country Bangladesh also has a retirement plan programs for its public employees. Initially the pension was given based on the average pay of last 12 months of any participant. Later in 1974 this policy was changed to a percentage basis on the compensation of the participant. The maximum amount was 60% of their compensation. This limit was later increased to 80% in 1977. There are no laws or regulations that make it compulsory for all organizations, public and private to have retirement benefit plans. But all government employees receive benefits as it is a mandatory benefit provided for them. There are several types of pension plans in Bangladesh, and they are as defined below,

Superannuation Pension: This is the general type of pension that every retired government employee can receive upon retirement that normal age. The retirement age set by Bangladesh Government is 65. Any employee who passed the age and retire will be eligible for this pension. One problem faced while issuing this pension is because of the lack of proper regulations in issuance of Birth certificates many try to abuse this pension abusing the age system.

Compensation Pension: The compensation pension is a pension provided to government employees who has been laid off downsizing or funding issues. It should be considered that any employee after completion of their service condition will not be eligible for this pension. Also, if the terminated employee is transferred to move to any other establishment, they will also have to forfeit their compensation pension from the previous post.

Invalid Pension: Any government employee who has is unable to work for physical or mental issues will receive this pension. Employees over the age of 57 does not require any medical certification or validation to receive this pension. But anyone younger than 57 will need to prove their status of invalidation with medical evidence. In case the employee is discharged for any other reason any type of proof that proves their invalid for work status will not be approved.

Retiring Pension: Similar to the superannuation pension, the retiring pension is offered to employees who has completed 25 Years of service for the government. After completion of 25 years of service the government can retire him from his services without any reason whatsoever. When an employee is retired in such a manner, they are eligible to receive the retiring pension.

Optional Pension: Like the age limit, any employee can voluntarily retire only after completing 25 years of service. They do not need to be 65 years of age to do so. When retiring using the 25 years of service policy they are entitled to receive pension known as the optional pension.

Family Pension: Upon the death of an employee the employee's family members or a nominated individual will receive pension on behalf of the deceased employee. If any nominees were not elected, then a governing committee will decide who receives the pension.

3.4 Recommendation

3.4.1 Reinvest the Funds In the economy

The very thing that made USA's 401(k) very popular was its reinvestment scheme. This not only allowed the participants to increase their retirement funds but also kept their economy feed with huge investments which drove development. Bangladesh can also adopt a similar approach were the fund allocated for the pension of the employee with be reinvested into the economy. Now the unstable condition of the capital market might drive down demand for reinvestments, but the government can invest them in bonds or similar long term investment plans for a more stable gain.

3.4.2 Introduce Non-Discriminatory Steps

Currently, Bangladesh's pension system does not have any rules or regulation that help in reducing discriminatory activities. The pension system of Bangladesh is based on the employee's compensation at the end of a payroll. This means employees who have higher compensation are being more benefited by the pension plans. Also, as private sectors follow some variations of the government's policy people there face the same issue but at a

larger scale. The ADP/ACP testing methods can be adopted here to reduce this discrimination to some extent.

3.4.3 Make Retirement Policies Compulsory

Here in Bangladesh Retirement plans are only guaranteed when anyone gets a government job. For the private industry this has not yet been made mandatory. Like IRS, Bangladesh Government should make providing retirement facilities mandatory for all organizations including the private sector. This will not only help thousands of individuals who are derived from this benefit but also reduce the pressure from many individuals who work to secure their retirement. Also if the government makes it mandatory, they can impose guidelines and regulate the industry like IRS does in US right now.

3.4.4 Have Regulatory Bodies

The 401(k) plans have many regulatory bodies to make use that no one can abuse the plans or even exploit them. The IRS, DOL, every TPA and also the Record Keepers work like auditing firms and regulatory bodies for these plans. Bangladesh should also introduce third parties into the retirement industry to make the system more reliable which will later give people the faith to save more using retirement plans.

3.5 Conclusion

The United States has created such a retirement plan for its citizen that it encourages people to save and invest in their future. But unfortunately, Bangladesh is far behind in this industry with mediocre offerings and no coverage. For this reason many Bangladeshis' works on securing their retirement on their own. Also, because of the way 401(k) was designed it benefits the country's economy while helping its citizens. Bangladesh is a young country if compared to USA in age, but we can now adopt what USA learned through years of experience and use it for our own benefit. I believe that this report will serve its purpose on shedding light on our lacking retirement system and open up scopes to improve it.

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