

[May 8 und 9. 2015 in Bendorf \(Rhein\)](#)

The following presentations were held and discussed in Bendorf (Rhine) on May 8 and 9, 2015:

### **1. Time Inconsistent Preferences and the Annuitization Decision**

*Martin Weber, Universität Mannheim*

When entering retirement most people face the decision whether they would like their defined contribution account balance paid as a lump sum or to annuitize the amount. The fact that people tend to choose the lump sum even if economic reasons suggest not to is called the annuity puzzle. In a large online survey, we find that people behave time inconsistent: older people have a stronger tendency to choose the lump sum than younger people. This effect and therefore, the low real life annuitization can be explained by hyperbolic discounting. The age effect is considerably stronger for participants that answer simple time preference questions inconsistently. Our findings suggest to think about precommitment devices for the annuitization decision.

### **2. Black Sheep or Scapegoats? Implementable Monitoring Policies under Unobservable Levels of Misbehavior**

*Gerd Mühlheuß, Universität Hamburg*

An authority delegates a monitoring task to an agent. Thereby, it can only observe the number of detected offenders, but neither the monitoring intensity chosen by the agent nor the resulting level of misbehavior. We provide a necessary and sufficient condition for the implementability of monitoring policies. When several monitoring intensities lead to an observationally identical outcome, only the minimum of these is implementable, which can lead to under-enforcement. A comparative statics analysis reveals that increasing the punishment can undermine deterrence, since the maximal implementable monitoring intensity decreases. When the agent is strongly intrinsically motivated to curb crime, our results are mirrored and only high monitoring intensities are implementable. Then, higher monetary rewards for detections lead to a lower monitoring intensity and to a higher level of misbehavior.

### **3. Transfer Pricing System (TPS) Integration, Design Characteristics and perceived TPS Success**

*Dieter Pfaff, Universität Zürich*

This paper shifts the focus of transfer pricing research from a traditional transaction-based approach to transfer pricing to the overall transfer pricing system (TPS). In particular, we investigate the relationship between the integration of the TPS into the management control system, an enabling use of the TPS and the perceived success of the TPS. Results from structural equation modeling using the partial least squares technique indicate that the level

of TPS integration is positively and significantly related to the perceived success of the TPS. This relationship is mediated through an enabling use of the TPS as indicated by the design variables repair and internal transparency. Thus, the level of TPS integration is positively associated with internal transparency and the ability to adapt (repair), which in turn have positive links to the perceived success of the TPS.

#### **4. Expected Losses and Managerial Discretion as Drivers of Countercyclical Loan Loss Provisioning**

*Andreas Pfingsten, Universität Münster*

Several studies have addressed, with conflicting results, the issue of procyclical effects of loan loss provisions in the past. More recently, the weak performance of incurred loss models in the financial crisis has given rise to a new debate on the sound design of credit risk provisioning schemes, which is reflected in the scheduled implementation of an expected loss model in IFRS 9. This study contributes to the extant literature by separately analyzing the cyclical effects of specific and general loan loss provisions under a legislative framework that allows provisions based on expected losses in the loan portfolio. Using three different measures of forward-looking provisioning, we find typical German banks, most of them unlisted and operating regionally, to use specific loan loss provisions countercyclically, in particular for earnings management and by anticipating non-performing loans at the closing date. The use of general loan loss provisions is predominantly motivated by tax considerations, pointing out the considerable importance of the impact of local tax law.