Intended and Unintended Consequences of Retirement Income Policies

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September 29, 2025

Abstract

Australia's retirement income system – anchored in the Age Pension, mandatory retirement contributions (the Superannuation system), and voluntary savings – has evolved through incremental reforms rather than comprehensive design. This project develops a quantitative life-cycle model with incomplete markets to assess the intended and unintended consequences of Superannuation policy. The model captures interactions between Superannuation contributions, tax concessions, and Age Pension means-testing, allowing us to evaluate behavioural responses across the age, income, and wealth distributions. While Superannuation has increased private saving and reduced reliance on the Age Pension, it has also generated unintended consequences such as significant fiscal costs and increased wealth inequality. We quantify these trade-offs and examine the extent to which current policy aligns with normative goals of adequacy, equity, and sustainability. The model is calibrated using administrative data on income and Superannuation balances from the Australian Tax Office, and wealth data from the Survey of Income and Housing. This quantitative framework provides a basis for evaluating future reforms to Australia's retirement income system.

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