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Global Capital's Role in Mitigating Unaddressed Risks in Decumulation

White Paper for Conexus Institute Retirement Leaders Summit

Apollo Global Management | August 2026

Executive Summary

Australia has built a world-class accumulation system. Three decades of compulsory contributions have produced a pool of around $4.5 trillion, over 150% of Australian GDP and among the largest in the world.[1] It now needs to develop a world-class decumulation system, defined by the income security it delivers: managing longevity, sequencing and market risk so that retirees can spend with confidence across an uncertain lifespan.

Australian retirees underspend out of caution about future aged-care costs, or outliving their savings – but they're still exposed to the shocks they fear. Most retirees self-insure: they cautiously draw down their account-based pension, and rely on the Age Pension as a safety net.[2]

Individual retirees are therefore subject to risks that they cannot adequately prepare for:

- **Systemic and market risks,** e.g. concentration risks can be managed through diversification. This is largely within trustees' existing power.
- **Individual-level risks**, e.g. longevity and sequencing risks fall on each retiree alone. They are, in essence, insurance problems, and no individual can self-insure them efficiently. Managing them requires risk-bearing capital.

The system already has the tools for the first category; it lacks them for the second. Trustees can, and increasingly do, diversify away concentration risk.

Greater access to global capital can help Australian retirees pool and price risks through insurance and reinsurance capital that individual accounts cannot. The current regulatory settings are only beginning to allow this, though members still lack efficient access to longevity and sequencing protection that only a risk-bearing balance sheet can provide.

Risk transfer should be treated as infrastructure. Just as the accumulation system was built on the infrastructure of compulsory contributions and default settings, the decumulation system needs the architecture to move risk to those best placed to bear it.

A successful outcome will allow Australians to spend their savings with confidence, leaving the Age Pension to remain a genuine safety net rather than a growing fiscal liability in an ageing society, and creating the commensurate leading, global standing in decumulation that Australia already holds in accumulation.[3]

> **Global capital** is diversified, prudentially regulated balance-sheet capacity, principally insurance and reinsurance capital, deployed to bear risks that individual account balances cannot. It is distinct from short-term or speculative capital.

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[1] Super Statistics, July 2026, The Association of Superannuation Funds of Australia (ASFA)

[2] Retirement Income Review, Australian Treasury 2020

[3] Australian Government, 2023 Intergenerational Report. The number of Australians aged 65 and over is projected to roughly double over the next four decades.

1. Retirees Need Certainty, Not Just Savings

A strong retirement system is one which gives retirees the confidence to support their chosen standard of living for as long as they live. Risk protection is a core function of a retirement system: by definition, retirees can no longer earn back losses through work, so a shock in the final years of accumulation or the first years of drawdown cannot be recovered by returning to the labour market.

Retirees need three distinct kinds of protection:

- **Floor protection against catastrophic outcomes**: a guaranteed minimum.
- **Protection against sequencing risk:** smoothing the effect of negative or sub-optimal returns early in retirement, when a drawdown effectively locks in losses permanently.
- **Longevity insurance:** protection against the risk of outliving savings.

These are distinct risks, and they are worse in combination. A retiree who lives longer is more exposed to catastrophic outcomes and outliving savings.

Australia's system today provides only the first of these three. Around 56% of Australians aged 65 or older receive at least partial support from the Age Pension, which serves as a safety net.[4] However, a safety net is not the same as income adequacy to support a comfortable lifestyle in retirement for most Australians, and does not smooth sequencing risk or insure longevity for the *disengaged middle* whose retirement security rests almost entirely on their home and their superannuation balance.[5]

> **The disengaged middle.** The cohort most exposed is not the wealthy, who can buy advice and absorb shocks, nor those who rely almost wholly on the Age Pension. It is the middle: Australians with a house and a meaningful super balance but limited discretionary wealth. They face the highest volatility in their standard of living, and they are the least likely to seek advice. Any solution that depends on this group actively choosing complex products will not reach them. Advice and alternative solutions remain fully available for those who want them; the aim is to also serve the members who will not seek them out.

2. Risk in an Australian Context

- **Systemic and market risks** affect the pool of assets a member holds and can be reduced by diversifying that pool.

[4] Income support for older Australians, Australian Institute of Health and Welfare (AIHW), October 2025.

[5] Mercer CFA Institute Global Pension Index 2024. Australia ranked among the leading systems for sustainability while being noted for its comparatively limited focus on the decumulation phase.

- **Individual-level risks** fall on the retiree as a person, cannot be diversified away, and require an insurance mechanism to manage.

2.1 Systemic and Market Risk: Concentration

The Australian public listed market is heavily weighted toward a small number of sectors: financials account for roughly a third of the S&P/ASX 200 and materials for roughly a quarter, so two sectors make up close to 60 per cent of the benchmark. Technology, by contrast, is a low single-digit share.[6]

In addition, the bulk of Australian household wealth outside super is held in residential real estate, and superannuation portfolios themselves carry significant domestic property and financials exposure. A typical member is therefore exposed to Australian banks and Australian housing at the same time through their fund and through their home.

Broadening a portfolio beyond domestic assets, into global equities, credit and real assets, reduces the idiosyncratic risk of any single economy. This is a portfolio construction decision: an Australian fund can diversify globally with the capital it already manages. Additionally, asset allocation should reflect the changing risk profile of a member as they move through retirement, not only their profile at the point of retirement. A member's capacity to bear risk falls as their remaining earning years disappear and their drawdown horizon shortens.

2.2 Individual-Level Risk: Longevity and Sequencing Risk

Individual-level risks require an insurance solution. Individuals cannot self-insure (i) their own longevity, the risk of outliving savings, (ii) sequence-of-returns risk, the risk that a poor run of markets early in retirement permanently depletes a portfolio, and (iii) sequencing-of-drawdown risk.[7] Two of these, longevity and sequence-of-returns, require capital; the third, drawdown sequencing, is a matter of product design.

Supporting retirees to manage their returns and draw down different pools of capital and protection requires appropriate product design: structures that combine a growth allocation with a protected income layer, or that let a member convert part of their balance into lifetime income over time rather than in a single decision.

Pooling longevity at scale, and standing behind a guarantee of income, requires a balance sheet able to absorb the risk, which only risk-bearing capital can provide.

> **The self-insurance penalty.** Australian retirees are, in aggregate, net savers: many see their balances continue to grow through retirement, and a large share of the assets held at retirement remains unspent at death. This is the visible cost of a system without efficient risk

[6] Sector weights vary with market movements; figures cited reflect S&P/ASX 200 sector composition through 2025 and into 2026, when financials represented roughly one third and materials roughly one quarter of the index.

[7] Grattan Institute, Simpler super: taking the stress out of retirement, 2024-25. The report documents that many retirees are net savers whose balances continue to grow through retirement, and that a large share of assets held at retirement remains at death.

transfer. Faced with uninsurable longevity and sequencing risk, rational retirees hoard. The money is preserved, but the retirement it was meant to fund is not fully lived.

3. Matching Risk to Responsibilities and Tools

The table below maps each risk category to the mechanism that addresses it and the party best placed to act.

Risk Type	Risk	Tool	Who is responsible
Systemic and Market Risks	**Concentration**	Diversification into global assets	Trustees, within existing settings
Individual Risk	**Longevity**	Pooling backed by risk-bearing capital	Requires capital + enabling regulation
	Sequence-of-returns	Capital-backed protection and buffers	Requires capital + product design
Product Design	**Drawdown sequencing**	Product design and guided pathways	Trustees + providers

3.1 What Trustees Can Already Do

Trustees can diversify globally today to manage concentration risk. Doing so requires portfolio construction discipline and a recognition that a member's risk profile shifts through retirement. To the extent the Australian system underperforms on concentration, the constraint is behavioural and structural, not an absence of tools.

3.2 The Gap: Risks that Need Capital

Longevity and sequencing risk require a balance sheet to absorb them, and members cannot access one efficiently within the current structure. Bringing prudentially regulated insurance capital to bear on guaranteed income inside the superannuation structure, at a cost and scale that works for members, is what turns an uninsurable individual risk into a managed one.

Capital-backed protection is not a single product. Instead it sits on a spectrum:

- **Full guarantees:** a promised income for life, with the provider bearing investment and longevity risk.
- **Partial protection:** floors, deferred guarantees, or protection that activates only in adverse scenarios.

- **Investment-linked structures with downside buffers:** retaining market upside while capping the worst outcomes.
- **Pooling without explicit capital:** sharing idiosyncratic longevity risk across a cohort, which addresses part of the problem without a full balance-sheet guarantee.

3.3 Capital Needs Default Settings to Reach Retirees

In order to reach retirees at appropriate decision points and change outcomes, protection has to be embedded into default options and guided pathways to achieve scale, because the members who need it most are precisely those who will not actively select it. Engagement-led strategies have been tried and have consistently under-delivered.

Embedding must be done in a "*do no harm*" way: professionally managed defaults that deliver clear uplift for most members while preserving an easy opt-out for those who want to choose differently. This is also, in practice, the easiest route for capital to enter the system, because it converts a series of individually complex member decisions into a single well-governed design choice at the fund level.

4. Case Study: Global Capital as a Market Accelerant in Japan

Japan offers the clearest recent example of global capital entering a domestic retirement market and expanding what it can offer. Japan is ageing faster than almost any developed economy, raising the importance of private savings and guaranteed retirement income at the same time as it strains domestic insurers' capacity to provide them.[8]

Over the past five years, offshore capital and reinsurance have been used to support guaranteed retirement products where domestic balance sheets alone would have limited both supply and value. Cross-border reinsurance lets Japanese insurers offload capital-intensive, long-dated liabilities to diversified global balance sheets, freeing capacity to write new business and improving the value that can be offered to policyholders. The scale is material: by late 2025 a single global provider had reached roughly US$19 billion in reinsurance transaction volume with Japanese insurers. Industry analysts link the acceleration directly to Japan's tighter Economic Solvency Ratio capital regime, which made holding guaranteed liabilities domestically more onerous and drew in external capital to fill the gap.[9]

The Japanese experience carries two further lessons that map directly onto Australia:

- **Incentives can push people toward lump sums instead of income.** Where the system does not actively steer members toward income, many take capital and self-manage, weakening retirement security.

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[8] Population ages 65 and above (% of total population), Japan, World Bank Data, 2025

[9] Total transaction volume of Athene's reinsurance transactions with Japanese cedants reached approximately US$19 billion by September 2025 (Athene / Apollo Global Management, company disclosures, 2025). Industry commentary attributes the acceleration in Japanese asset-intensive reinsurance in part to the introduction of Japan's Economic Solvency Ratio capital regime.

- **Inflation risk has returned.** Resurgent inflation has sharpened demand for solutions that protect purchasing power, not just nominal balances, a reminder that the risks retirees face are not static.

Japan's experience shows how global capital and reinsurance capacity can accelerate innovation and widen access, provided the domestic system is designed to channel members toward income rather than leaving them with pure optionality.

5. Conclusion: Solving the Risks That Are Not Adequately Addressed

Australia's accumulation system is world-class. The next step is to focus on decumulation: providing better support to retirees, and ensuring that the risks retirees face are no longer being left with the people least able to bear them.

This is what treating risk transfer as infrastructure means in practice. The accumulation system was built on the infrastructure of compulsory contributions, default settings and institutional-scale asset management. The decumulation system needs the equivalent: architecture to move risk to those best placed to hold it.

- **For Trustees:** global diversification transfers idiosyncratic Australian risk, concentrated in domestic financials and housing, to broader investments. Defaults and income-based framing will also support retiree decision-making across a broader product set to meet their own retirement needs.
- **For Policymakers:** the regulatory architecture, performance-test design, licensing requirements for retail products, and the prudential treatment of insurance capital within superannuation, can do more to support the product innovation that global capital makes possible, particularly guaranteed and partially guaranteed income structures that require prudentially regulated insurance capital. Recent reforms have moved in the right direction. APRA's amendments to the capital treatment of longevity products, issued in March 2026 and available to insurers from July 2026, are a welcome example: by introducing a more risk-sensitive illiquidity premium they reduce a longstanding capital barrier to annuity provision.

Capital, diversification and defaults are complementary components of a single system whose purpose is to let Australians convert a lifetime of savings into a lifetime of confident income.