



2025 IORP LIQUIDITY STRESS TEST

FREQUENTLY ASKED QUESTIONS

GOAL

What is a stress test?

A stress test is an important risk management and supervisory tool. It is used by financial institutions and supervisors to explore vulnerabilities and assess the resilience of financial institutions such as Institutions for Occupational Retirement Provision (IORPs) and that of the respective sectors as a whole to severe but plausible shocks. They provide an indication of the impact and potential losses upon the materialization of a variety of risks and help to identify areas where further supervisory attention and actions are needed.

Is the EIOPA stress test a pass-fail exercise?

EIOPA's stress test exercises have never been characterised by a pass-fail nature, and this also holds for the 2025 IORP stress test. No potential weakness in the post-stress position of the participants shall automatically trigger actions aimed at strengthening the financial position of the IORPs. The aim is to reveal risks and vulnerabilities as well as potential implications for the real economy and financial stability.

What is the objective of the 2025 IORP stress test?

The 2025 exercise aims to assess the liquidity vulnerabilities of IORPs in the European Economic Area and of the overall sector under two adverse scenarios:

- Yield Curve Up (YCU): a sharp increase in EU interest rates triggered by sudden geopolitical tensions.
- Yield Curve Down (YCD): a sharp decrease in EU interest rates due to prolonged geopolitical tensions and a weaker economic outlook.

The exercise also analyses the effects of management actions taken in response to these stresses to evaluate potential spillover effects to other sectors with inherent financial stability implications.

The macroprudential dimension enabled by the aggregation of the impacts of reactive management actions, allows for the assessment of potential spill-overs to other markets generated by the insurance sector against the prescribed scenario.

What economic and market developments do these scenarios assume?

Both scenarios reflect a worsening economic outlook, marked by declining confidence in financial markets, disorderly adjustments in asset prices, and sharp increases in volatility and risk premia across equities, credit, and real estate. They also assume widening sovereign and corporate credit spreads, tighter credit standards, and significant declines in real estate values (particularly in the commercial real estate

segment). The YCD scenario represents a more prolonged and severe downturn, leading to deeper asset valuation shocks and greater liquidity pressures than the YCU scenario.

For a detailed description of the scenarios please refer to ESRB (2025) Adverse scenarios for the 2025 European Insurance and Occupational Pensions Authority's EU-wide pension fund stress test exercise, available at: [ESRB – IORP 2025 scenarios](#).

Why is the 2025 stress test considered a focused exercise and what are the implications on the interpretation of the results?

The 2025 IORP stress test is labelled as focused because it only targets the asset side of the balance sheet of the participants leaving the liability side outside the scope of the assessment. EIOPA opted for this approach to reduce the burden on participants, in particular during the transition period for many European IORPs from DB to DC scheme. The focused approach did not compromise the objective of the exercise.

The results of the 2025 IORP Stress Test should be interpreted in the context of its focused scope, which considers only the asset side of participating IORPs. The exercise does not capture the full range of potential impacts stemming from differences in liabilities, benefit structures, or national frameworks, all of which may influence the overall resilience of IORPs.

SCOPE

Which countries participated in the stress test?

IORPs from 18 Member States participated in the stress test: Austria, Belgium, Cyprus, Germany, Denmark, Spain, Finland, France, Ireland, Italy, Liechtenstein, Luxembourg, The Netherlands, Norway, Portugal, Sweden, Slovenia and Slovakia. Entities from all countries EEA countries with material IORP sectors participated in the exercise.

Who selected the participants for EIOPA's stress tests?

The selection was a joint process between EIOPA and National Competent Authorities (NCAs). In line with its mandate, EIOPA, in cooperation with NCAs, defined the selection criteria, and the NCAs proposed an initial list of entities based on these criteria. EIOPA could propose amendments to the list based on well-grounded motivations (e.g. risk exposure, size, vulnerability to the tested scenario). Finally, the Board of Supervisors of EIOPA approved the list of entities to be included in the stress test.

What is the market coverage of the exercise?

The target sample defined by EIOPA (in cooperation with the national competent authorities) encompassed 156, registered in 18 European jurisdictions. The selected sample covered more than 60% of assets in defined benefit (DB) schemes and defined contribution schemes (DC).

DESIGN OF THE EXERCISE

Why has EIOPA decided to do a liquidity stress test?

Recent macroeconomic conditions, characterized by rapid interest rate changes, market volatility and geopolitical tensions, have the potential to create liquidity pressures for IORPs, as observed during the 2022 UK Gilt crisis. In that event, UK pension funds using liability-driven investment strategies faced substantial margin calls and were forced to liquidate long-term, illiquid assets. Against this backdrop, EIOPA designed the 2025 stress test to focus on liquidity risk, aiming to identify vulnerabilities and assess whether IORPs in the EEA could withstand similar market shocks.

What was the role of the European Systemic Risk Board (ESRB) in EIOPA's 2025 IORP Stress Test?

The European Systemic Risk Board (ESRB) developed the narrative, the methodology and calibrated the two adverse scenarios.

Which results of the stress test are disclosed?

As with the approach taken for the previous EIOPA IORP stress tests, the 2025 exercise publishes only aggregate results at EEA level. The aggregation of the data and their presentation ensure the anonymity of the information in such a way that the position of individual participants cannot be discerned.

EXERCISE AND RESULTS

What is the time horizon for the stress test exercise?

The test assesses IORPs' liquidity over a 90-day horizon starting from the reference date (31 December 2024). That means all cash flow needs (benefit payments, margin calls, redemptions, contributions, etc.) must be covered during those 90 days under the stress scenarios

How was IORPs' liquidity position tested?

The 2025 IORP Stress Test measured liquidity resilience using two key metrics:

- **Liquidity Position:** a 90-day cash-flow analysis combining (i) cash and cash equivalents as of 31 December 2024 and (ii) net cash flows during the 90 days period. A positive result indicates that the total net cash flows within the 3-month time horizon can be fully covered by the cash holdings available at the beginning of the period (end of December 2024).
- **Sustainability Indicator:** this metric builds on the liquidity position by including all other liquid assets after applying market-shock haircuts. The scaled version of the indicator (by liquid assets at 31 December 2024) represents the fraction of liquid assets remaining at the end of the 90-day period after covering stressed net cash flows. A ratio above 100 % suggests liquidity buffers improved; a ratio between 0 % and 100% signals a decline; a negative ratio would imply liquid assets were insufficient to cover the outflows.

Why were haircuts applied in the sale of assets in the 2025 IORP stress test?

Haircuts were introduced to better reflect the potential losses from the immediate sale of assets under stressed conditions. They account for the fact that liquid assets may not be sold at their full market value during sudden, large-scale liquidation, providing a more realistic assessment of IORPs' liquidity vulnerabilities.

What are the main conclusions?

The 2025 IORP stress test shows that, overall, the IORP sector has a sound baseline liquidity position. Margin calls related to derivative exposures represent the key source of stress, particularly under the Yield Curve Up scenario, where rising interest rates and euro depreciation generate the strongest liquidity strains. The results confirm that while derivatives provide capital benefits, they can create significant cash needs under stress, and some IORPs required management actions, such as selling liquid assets or using repos, to meet collateral demands.

What role did management actions play in the results?

Management actions, such as asset sales and reductions in trading activity, played a key role in restoring IORPs' liquidity and maintaining positive post-stress positions.

Despite these actions, IORPs remained net buyers overall, avoiding the amplification of market shocks.

What are the lessons learnt?

The 2025 IORP stress test provides a comprehensive assessment of the sector's liquidity position under two severe but plausible scenarios. Overall, the results show a resilient sector, while also identifying key liquidity vulnerabilities.

Key lessons include:

- Importance of proper look-through, particularly regarding derivative exposures and potential margin calls within investment funds, in order to obtain a more accurate picture of IORPs' liquidity positions.

- Future exercises could benefit from improved treatment of management actions and liquidity haircuts, building on insights from this exercise and broader supervisory work.

Which institutions supported EIOPA in conducting the 2025 IORP Stress Test?

The 2025 exercise involved EIOPA, European Systemic Risk Board (ESRB), NCAs and individual IORPs. EIOPA coordinated the process with the involvement of the NCAs.

The NCAs selected and contacted the IORPs that participated in the exercise and IORPs performed the calculations and provided the data.

The NCAs were responsible for the local validation and also participated in EIOPA's central validation of the data.

LEARN MORE



Visit the dedicated webpage:
https://www.eiopa.europa.eu/occupational-pensions-stress-test-2025_en

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