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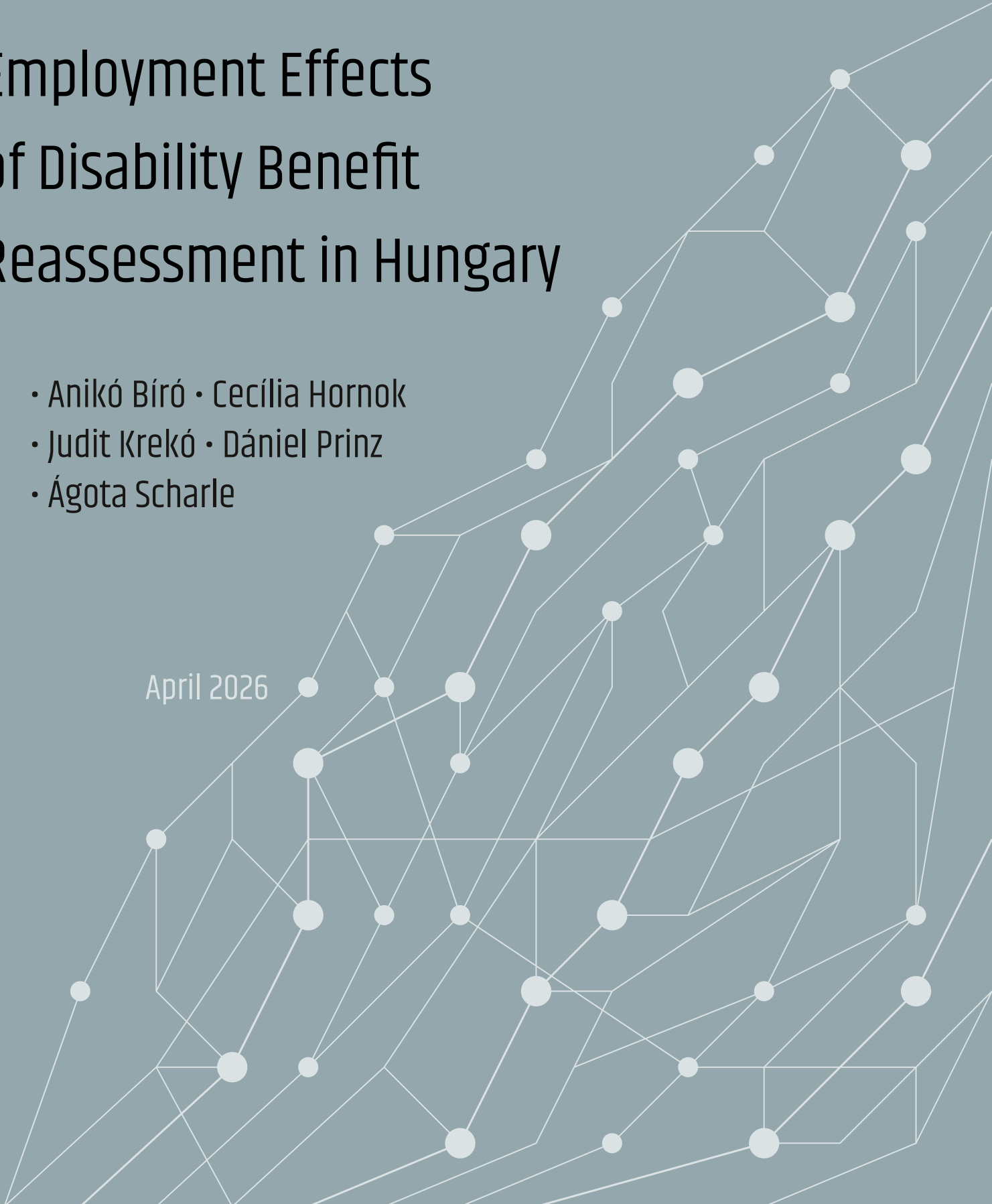
POLICY
BRIEF

N°5

Employment Effects of Disability Benefit Reassessment in Hungary

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EXECUTIVE SUMMARY



The 2012 Hungarian disability insurance (DI) reform introduced a large-scale reassessment of beneficiaries' work capacity, aiming to improve system sustainability and encourage labor market participation.

The reform produced mixed employment effects. While some beneficiaries increased employment after losing benefits, many reduced or stopped working before reassessment due to fear of benefit loss. As a result, the reform led to a short-term decline in employment and only neutral effects in the medium term, alongside a modest reduction in total income for affected individuals.

These findings highlight the importance of accounting for behavioral responses to perceived policy risk, not just actual policy changes.

BACKGROUND

Hungary's DI system expanded significantly in the 1990s, reaching one of the highest beneficiary rates among OECD countries. Earlier reforms (notably in 2008) attempted to promote rehabilitation but had limited fiscal and employment impact.

The 2012 reform introduced:

- mandatory reassessment for ~200,000 beneficiaries with partial disability (below 80% impairment).
- cuts in benefit amounts for those with milder forms of disability
- stricter eligibility criteria and revised evaluation procedures.

The reform aimed to:

- reduce DI rolls and public spending,
- improve targeting,
- encourage labor market reintegration of those with remaining work capacity.

KEY FINDINGS

1. Anticipatory (Threat) Effects Reduced Employment

- Employment declined immediately after the reform announcement, even before reassessments began.
- Beneficiaries reduced work effort to avoid appearing employable and risking benefit loss.
- This effect was strongest among individuals with moderate risk of losing benefits.

2. Benefit Loss Increased Employment—But Slowly

- Individuals who lost benefits eventually increased employment.
- However, job entry was gradual, often taking over a year.
- Many experienced a period with no benefits and no employment, indicating adjustment difficulties.

3. Net Employment Effect Was Neutral

- Short-term: negative employment impact due to widespread withdrawal from work.
- Medium-term: neutral overall effect, as gains from those re-entering work offset earlier declines.

4. Income Declined for Affected Individuals

- Total income fell by ~2%, driven mainly by reduced benefits.
- Increased earnings did not fully compensate for benefit losses.
- No significant substitution with other welfare programs occurred.

5. Behavioral Responses Driven by Perceived Risk

- Employment responses were strongest where benefit status was uncertain.
- Even without binding earnings limits, fear of reassessment outcomes influenced behavior.
- This reflects a substitution effect: individuals trade off work to maintain eligibility.

POLICY RECOMMENDATIONS

1. Improve Communication and Transparency

- Clearly communicate reassessment criteria and rules.
- Reduce uncertainty about how employment affects eligibility to limit unnecessary labor withdrawal.

2. Decouple Work from Eligibility Risk

- Ensure that working (especially at low levels) does not signal ineligibility.
- Introduce safeguards so beneficiaries are not penalized for attempting to work.

3. Provide Transitional Support for Benefit Loss

- Offer job placement services, retraining, and income support during transitions.
- Address the gap where individuals lose benefits but cannot immediately find employment.

4. Phase Reassessments Gradually

- Avoid sudden, large-scale reassessments that trigger widespread anticipatory effects.
- Implement staggered or targeted reviews to reduce system-wide behavioral shocks.

5. Strengthen Incentives for Partial Work

- Encourage part-time or gradual return-to-work options.
- Maintain partial benefits to support labor market reintegration.



CONCLUSION

The Hungarian reform demonstrates that disability reassessments influence behavior not only through actual benefit changes but also through expectations and perceived risks.

Effective policy must therefore balance fiscal goals with incentives and support mechanisms that encourage, rather than discourage, labor market participation.

REFERENCE

Anikó Bíró, Cecília Hornok, Judit Krekó, Dániel Prinz, Ágota Scharle (2026): The Employment Effects of Disability Benefit Reassessment. *Journal of Public Economics*, accepted for publication.



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