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New Restrictions on California's "Stay-or-Pay" Provisions Require Employers to Review Repayment Agreements

California Employment Law Update on **January 15, 2026**

A new law that took effect on January 1st, California Assembly Bill 692 ("AB 692"), significantly limits employers' ability to require repayment of bonus, training, relocation and other retention-linked incentives upon a worker's termination of employment. Employers with workers located in California should review and update their forms of offer letters, employment agreements, and any other documents that may include repayment obligations for amounts paid to workers, including, but not limited to, sign-on bonuses and tuition-repayment programs.

Broad Prohibition on Most "Stay-or-Pay" Provisions

Applicable to any agreements executed on or after January 1, 2026 (the "Effective Date"), AB 692 (codified in sections 16600 *et seq.* of the California Business & Professions Code), prohibits employers from entering into so-called "stay-or-pay" contracts—i.e., those that:

- Require a worker to repay a debt to an employer, training provider, or debt collector if the worker's employment or work relationship with a specific employer terminates;
- Authorize an employer, training provider, or debt collector to resume or initiate collection of or end forbearance on a debt if the worker's employment or work relationship with a specific employer terminates; and/or
- Impose any penalty, fee, or cost on a worker if the worker's employment or work relationship with a specific employer terminates.

The statute applies to all employment or service-related contracts entered into after the Effective Date, as well as any employment or service-related contracts that are amended or renewed following the Effective Date.

AB 692 defines “debt” as money, personal property, *or their equivalent* that is due or owing from a natural person to another person, including, but not limited to, for employment-related costs, education-related costs, or a consumer financial product or service, regardless of whether the debt is certain, contingent, or incurred voluntarily. The statute also includes an exceeding broad (and vague) definition of “worker”—i.e., any natural person who is permitted to work for or on behalf of an employer or other business entity, including employees and independent contractors.

AB 692’s reach is broad, targeting many so-called “stay-or-pay” provisions that historically have been used as a retention tool to encourage continued employment.

Limited Exceptions

Despite AB 692’s expansive reach, the statute provides for certain narrow exceptions to its prohibition of employment-related contracts that contain repayment objections triggered by a separation of employment. Two of such exceptions are:

- ***Certain Discretionary Sign-On Bonus Payments***: Contracts that provide for the receipt of a discretionary payment at the outset of employment that is subject to repayment (including sign-on and other retention bonuses) will not violate AB 692 if *all* of the following conditions are satisfied:
  - The repayment terms are set forth in a separate written agreement;
  - The worker is notified of their right to consult with counsel and provided at least five business days to do so;
  - The repayment obligation (1) is not subject to interest accrual, (2) does not exceed two years from the date of receipt, and (3) is prorated based on the date of termination;
  - The worker has the option to defer receipt of the payment until the end of the retention period (i.e., when there is no repayment contingency); and
  - Repayment is triggered only upon the worker’s voluntary resignation or termination of employment or other service for misconduct, as defined in the California Unemployment Insurance Code.
- ***Tuition Repayment***: Contracts that require workers to repay the cost of tuition for a transferable credential will not violate AB 692 if *all* of the following conditions are satisfied:
  - The repayment terms are set forth in a separate written agreement;

- The transferable credential is not required as a condition of employment;
- The exact repayment amount is specified prior to the worker signing the contract and the repayment amount does not exceed the employer's cost of tuition;
- The repayment obligation (1) is prorated during any required employment period that is proportional to the total repayment amount and the length of the required employment period and (2) is not accelerated if the worker separates from employment or other service with the employer; and
- Repayment is triggered only upon the worker's voluntary resignation or termination of employment or other service for misconduct.

Potential Employer Liability

The new law is codified within sections 16600 *et seq.* of the California Business & Professions Code—i.e., the same section of California law that contains California's restrictions on various post-employment restrictive covenants (e.g., non-competes). Any contract or provision that runs afoul of AB 692's requirements will be unenforceable and, potentially, risks imperiling the enforceability of the agreements in which any such provision(s) is/are contained. Moreover, workers who enter into any employment-related contracts after the Effective Date that include terms prohibited by AB 692 may seek injunctive relief and the greater of actual damages or $5,000 in penalties, plus any reasonable attorneys' fees and costs.

Next Steps and Unanswered Questions

Employers should consider reviewing existing forms of all employment or service-related contracts to remove any sign-on bonus terms or other repayment provisions that are tied to continued employment or service.

If offering sign-on bonuses or other payments subject to claw-back in connection with a termination of employment is part of an employer's typical practice, employers should consider preparing a standard form of standalone repayment agreement that complies with the terms of the applicable AB 692 exception. In addition to complying with the terms of AB 692, employers also may need to consider how such agreements and practices are impacted and/or potentially limited by other legal requirements, including Internal Revenue Code Section 409A ("Section 409A"), which limits a worker's ability to make an election of whether to receive the payment upfront (subject to repayment) or at a future date once the retention period has been satisfied.

AB 692 also leaves open many questions about the extent to which it applies to incentive equity arrangements that contain forfeiture or claw-back provisions and whether arrangements with partners (as opposed to employees and contractors) would be subject to the law.

Notably, California is not alone in recently passing legislation aimed at stay-or-pay provisions. On December 19, 2025, New York Governor Kathy Hochul signed into law the "Trapped at Work Act," which imposes similar restrictions on these types of agreements, as discussed in our Law and the Workplace blog post.

Proskauer's Labor & Employment and Compensation & Benefits teams are advising employers with respect to go-forward compliance with AB 692. Please contact a member of our teams with questions.

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