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California's Ban on "Stay-or-Pay" Provisions: What Employers Should Know Now That AB 692 Is in Effect

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With the start of the new year, California Assembly Bill 692 (AB 692) is now in effect, introducing sweeping new restrictions on employment agreements that include so-called **"stay-or-pay" provisions** — terms requiring employees to repay money or incur financial consequences if they leave employment before a specified period. These provisions have become increasingly common in connection with training programs, relocation benefits, and sign-on or retention incentives, and many employers are now reassessing whether their existing practices comply with the new law.

AB 692 reflects California's longstanding public policy against contractual restraints that limit employees' ability to pursue other work opportunities. Much like the state's sweeping restrictions on non-compete agreements, the Legislature has made clear that imposing financial penalties at the time of termination is disfavored when they effectively discourage workers from changing jobs. Now that AB 692 has taken effect, employers should understand how it impacts offer letters, onboarding documents, and incentive arrangements used in 2026 and beyond.

What AB 692 Does

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AB 692 prohibits employers from including or requiring workers to sign, as a condition of employment or continued work, contract terms that treat an employee's departure as triggering a financial obligation. In practical terms, employers may no longer require workers to repay a debt, resume repayment, or incur penalties simply because the employment relationship ends.

The law targets provisions that require repayment of employer-incurred costs — such as training expenses, relocation payments, or bonuses — or that authorize employers to begin or resume collection of a debt when a worker resigns or is terminated. It also prohibits clauses that impose any fee, penalty, or cost solely because employment ends, regardless of how the provision is labeled.

These types of provisions frequently appear in "stay-or-pay" agreements or training repayment agreement provisions (TRAPs). Under AB 692, such terms are void and unenforceable if included in contracts entered into on or after January 1, 2026.

Importantly, the statute also provides employees with a private right of action. Workers may seek injunctive relief and recover either actual damages or a statutory minimum of $5,000, along with attorneys' fees and costs — significantly increasing the risk associated with noncompliant agreements.

Key Exceptions Employers Should Understand

Although AB 692 is broad, it does not eliminate all repayment arrangements. Instead, it permits certain narrowly defined exceptions, provided employers structure them carefully.

For example, repayment provisions tied to tuition or education expenses may still be allowed when the education relates to a transferable credential that is not required for the employee's current role. In those cases, the agreement must be separate from the employment contract, the repayment amount must

be specified in advance, and any repayment obligation must be prorated and not accelerated upon separation.

Similarly, certain sign-on, retention, or relocation bonuses may still include repayment obligations, but only under strict conditions. These agreements must be set out in standalone documents, provide employees with sufficient time to review and consult counsel, and limit repayment to reasonable, interest-free, prorated amounts over a defined retention period.

AB 692 also preserves exceptions for government loan or loan-forgiveness programs, registered apprenticeship agreements, and contracts related to residential property transactions. Outside these limited circumstances, however, most traditional stay-or-pay provisions are no longer enforceable in California.

Why This Matters to HR

Now that AB 692 is in effect, many HR departments will need to reassess practices that have long been used to manage hiring and retention costs. Offer letters, onboarding materials, and incentive programs that previously relied on repayment provisions may now expose employers to legal risk if used without modification.

HR teams should pay close attention to how training programs are structured, how bonuses are documented, and whether repayment obligations are embedded — sometimes unintentionally — across multiple employment documents. Because the law applies prospectively, agreements used beginning in 2026 must comply.

Practical Steps for Compliance

HR professionals should consider taking the following steps:

- **Audit:** Review offer letters, onboarding packets, and incentive agreements for stay-or-pay or repayment language.
- **Identify Programs:** Identify training, relocation, or bonus programs that condition benefits on continued employment.
- **Work with Legal Counsel:** Determine whether any arrangements qualify for statutory exceptions.
- **Provide Training:** Update templates and educate recruiting and HR teams on the new restrictions.

Looking Ahead

For HR professionals, the start of the new year is an important moment to ensure compliance with California's evolving employment landscape.

AB 692 represents California's most direct effort yet to regulate financial arrangements that function as barriers to employee mobility. As with prior developments limiting non-competes and restrictive covenants, employers that proactively review and revise their employment practices will be best positioned to minimize risk.
