

Recent Employment Developments in California: The Stay-or-Pay Ban and the “No Robo Bosses Act” Veto

Alert

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Employers should pay close attention to two recent developments in California employment law. California Gov. Gavin Newsom recently signed [Assembly Bill \(AB\) No. 692](#) into law, restricting stay-or-pay provisions in employment contracts. The governor also vetoed [Senate Bill \(SB\) No. 7](#), known as the “No Robo Bosses Act,” which would have restricted employers’ use of artificial intelligence (AI) in employment-related decisions.

While both actions directly impact California-based employers, any business that employs California workers should take steps to prepare. Moreover, California employment law often foreshadows national trends, so employers across the country may encounter similar laws in other jurisdictions in the coming years. Stinson is pleased to help employers navigate these and other issues, particularly through its [recent expansion](#) into Los Angeles, Orange County, and San Francisco.

PASSAGE OF ASSEMBLY BILL NO. 692: THE STAY-OR-PAY BAN

On October 13, Gov. Newsom signed AB 692 into law, making it unlawful for employers to require employees to enter most types of repayment or “stay-or-pay” agreements as a condition of employment. Employers often use repayment agreements to ensure their return on investment for training, credentialing, and other investments in human capital. Without such agreements, employers may be concerned that the talent they’ve invested significantly in could walk out the door and the company receives little to no benefit from their investment. Despite these concerns, as Gov. Newsom explained in his [signing message](#), repayment agreements may cause workers to be “trapped in employment contracts

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that impose significant financial repercussions for leaving their jobs.” The governor likened the new law to California’s [ban on noncompete clauses](#) as another means of promoting competition and attracting talent to the state.

Scope of the Stay-or-Pay Ban

The new law will make it unlawful for an employer to require a “worker,” broadly defined as inclusive of both employees and prospective employees, to agree to any of the following as a condition of employment:

- That the worker will “pay an employer, training provider, or debt collector for a debt if the worker’s employment or work relationship with a specific employer terminates.”
- That an “employer, training provider, or debt collector” may “resume or initiate collection of or end forbearance on a debt if the worker’s employment or work relationship with a specific employer terminates.”
- That the worker would pay a “penalty, fee, or cost . . . if the worker’s employment or work relationship with a specific employer terminates.”

Although the new law excludes independent contractors, California’s stringent test for establishing independent contractor status means that relatively few workers will fall outside the law’s protections.

The prohibition only applies prospectively to contracts entered into on or after January 1, 2026. It’s also subject to limited exceptions. For instance, agreements to repay tuition costs for “transferable credentials” and agreements to repay sign-on bonuses will still be lawful so long as certain conditions are satisfied. Contracts for the receipt of a discretionary or unearned monetary payment at the outset of employment, including a financial bonus, may still be permitted. Other reimbursements not tied to specific job performance, like relocation expenses, may also be included in this provision.

Employers should note that certain payments excluded from the ban, like sign-on bonuses and tuition plans, may continue to be opposed under [Section 970 of the California Labor Code](#).

An aggrieved worker is permitted to bring a civil action against their employer “for actual damages sustained by the worker or workers on whose behalf the case is brought, or five thousand dollars (\$5,000) per worker, whichever is greater, in addition to injunctive relief, and reasonable attorney’s fees and costs.”

How Employers Should Prepare

California employers should review existing employment and related agreements to confirm whether they contain any payback obligations and, if so, whether they fall within AB 692’s limited exceptions. Further, with more employees working remotely than ever, employers based outside of California who employ

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California-based workers must also take steps to prepare. Any repayment agreements entered into *before* January 1, 2026, remain fully enforceable. Looking ahead, employers should work with experienced employment counsel to draft new contracts that are compliant with AB 692 and that protect their business interests to the full extent permitted under the law’s exceptions.

VETO OF SENATE BILL NO. 7: THE “NO ROBO BOSSES ACT”

Earlier this month, Gov. Newsom vetoed the “No Robo Bosses Act,” [citing](#) its overly broad restrictions.

Scope of the “No Robo Bosses Act”

The proposed legislation would have established new rules for employers using automated decision systems (ADS), including AI, to make employment-related decisions. Specifically, it would have required employers to notify a worker before using ADS to make employment-related decisions. It would have also prohibited employers from relying solely on ADS when making disciplinary and discharge decisions.

Veto Message

Gov. Newsom stated that SB-7 imposes “unfocused notification requirements” on employers using routine tools, and “proposes overly broad restrictions” on how employers may use these tools. In particular, he noted that the broad notification requirements failed to distinguish between low-risk administrative technologies and AI-driven tools.

Furthermore, the governor directly referenced California’s new Automated Decision-making Technology (ADMT) [regulations](#), noting that the efficacy of these rules should be assessed before enacting new legislation in this space. The ADMT regulations were recently finalized by the California Privacy Protection Agency and will cover aspects of workplace decision-making such as notice, access rights, and employee opt-out requirements.

Why It Matters to Employers

California’s bill highlights growing nationwide scrutiny around the use of AI in employment decisions, including concerns about the potential discriminatory impact of AI and inappropriate reliance on these tools. Advocates will likely continue pushing this issue, and other states may develop measures similar to SB-7.

Employers using AI tools should stay abreast of this ever-changing landscape and take note of existing related regulations across their various states.

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Stinson regularly advises employers on preparing their businesses to comply with state and federal employment laws. For more information on the changes in California employment laws and the effects of them, please contact [Amy Conway](#), [Ben Woodard](#), [Rhonda Nelson](#), [Amanda Laufer](#), [Sharon Beck](#), [Joel Spann](#) or the Stinson LLP contact with whom you regularly work.

Carissa Hansen and Laura Reyes joined the firm as law clerks. Their Minnesota licenses are currently pending.

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