

Publications

California Bans Most “Stay-or-Pay” Agreements as of January 1, 2026

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California is poised to sharply curtail “stay-or-pay” arrangements beginning in 2026, extending the state’s long-standing commitment to employee mobility. Assembly Bill 692 (AB 692), passed by the Legislature and expected to be signed by Governor Newsom, will prohibit many agreements that require workers to repay costs or incur penalties when their employment ends. While the law draws a bright line against most pay-to-leave provisions, it preserves narrowly tailored space for two common practices—tuition reimbursement tied to transferable credentials and retention bonus repayment—if employers meet new statutory guardrails. With a January 1, 2026 effective date, employers should begin aligning their programs now.

AB 692 applies prospectively. The law will govern contracts entered into on or after January 1, 2026, and will not retroactively disturb preexisting agreements.

What AB 692 Prohibits and Who Is Covered

AB 692 targets contracts that make employment contingent on a promise to pay money, resume or accelerate debt collection, or absorb a penalty if the worker’s relationship with an employer ends. The ban covers obligations to pay the employer, a training provider, or a debt collector upon termination. The statute defines “penalty, fee, or cost” broadly to include replacement hire or retraining fees, “quit fees,” reimbursement of immigration or visa-related costs, liquidated damages, and claimed losses such as lost goodwill or profits. The protected “worker” category includes employees and job applicants. AB 692 expressly states that its rights and remedies do not supersede other laws, including Labor Code section 2802 (requiring the reimbursement of employee business expenses) and the state’s Unfair Competition Law.

Carveouts With Conditions: Tuition Reimbursement and Retention Bonuses

Despite its breadth, AB 692 preserves a pathway for tuition reimbursement linked to a “transferable credential,” provided the arrangement is structured carefully. The repayment obligation must be set out in a separate agreement, and earning the credential cannot be a condition of employment. The repayment amount must be specified **before** the worker agrees, may not exceed the employer’s actual cost of the credential provided, and must be prorated proportionally over any required employment period without acceleration if the worker leaves early. The agreement cannot require repayment if the worker is terminated, unless the termination is for misconduct. To qualify, the underlying credential must be a degree conferred by an accredited third-party institution authorized to operate in the state, must not be required for the worker’s current job, and must be transferable and useful beyond the employer’s workforce.

Retention bonuses also remain viable under AB 692, with significant conditions. Employers may offer hiring or retention bonuses with early-departure repayment, but the terms must be in a standalone agreement separate from the employment contract. Employees must be advised of their right to consult an attorney and given at least five business days to seek legal advice before signing. Any repayment must be interest-free and prorated based on the remaining portion of the retention period, which cannot exceed two years from the date the payment is received. The employee must have the option to defer receipt of the bonus until the end of a fully served retention period, in which case no repayment obligation would arise. Repayment can be triggered only if the employee leaves voluntarily or is terminated for misconduct.

Penalties and Enforcement: Private Actions, Damages Floor, and Fee Shifting

The statute also contains a private right of action. A worker or worker representative subjected to a violation may file a civil lawsuit on behalf of that individual, others similarly situated, or both. Available relief includes injunctive remedies, recovery of reasonable attorneys’ fees and costs, and monetary damages measured as the greater of actual damages or \$5,000. The combination of a damages floor and fee shifting is likely to draw scrutiny to noncompliant provisions and may encourage challenges to aggressive repayment models.

Next Steps for Employers Before January 1, 2026

Employers should use the lead time before 2026 to audit their practices and adjust. There is no obligation to amend or rescind current agreements because AB 692 is not retroactive. Employers should work with counsel to revise their agreements for tuition reimbursement and retention bonuses.