

California's AB 692: The State Puts "Stay-or-Pay" Agreements Under Greater Scrutiny

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California continues to reshape the boundaries of permissible employment agreements, and [Assembly Bill 692](#) is the state's latest move to strengthen employee mobility. Effective January 1, 2026, AB 692 prohibits training repayment agreement provisions ("TRAPs") and most "stay-or pay" requirements, including provisions that require repayment of retention bonuses or relocation costs commonly used to discourage employees from leaving early. Employees who are subjected to these provisions may bring a civil action, including a class action, against their employers. If found liable, AB 692 imposes a statutory damage of \$5000 per worker or actual damages, whichever is greater, in addition to injunctive relief and attorney's fees and costs. Attempting to enforce prohibited repayment terms may also trigger retaliation concerns under existing Labor Code provisions.

AB 692 aligns with growing federal scrutiny, most notably from the CFPB and the FTC, which have highlighted such repayment obligations as potential functional equivalents of noncompete restrictions.

Two Important Exceptions to AB 692

Transferable Credential Tuition Costs

A contract related to the repayment of the cost of tuition for a transferable credential that meets the following is allowed if:

- i. The contract is offered separately from any contract for employment;
- ii. The contract does not require obtaining the credential as a condition of employment;
- iii. The contract specifies the repayment amount, which does not exceed the cost to the employer of the credential received by the worker;
- iv. The contract provides for a prorated repayment amount and does not require an accelerated payment schedule upon separation; and
- v. the worker is not required to repay the employer if the worker is terminated, unless the worker is terminated for misconduct.

Discretionary Monetary Bonuses at the Outset of Employment

Contracts for discretionary or unearned payments such as sign-on bonuses are permitted provided

the employer meets the following conditions:

- The repayment terms are contained in a separate agreement than the employment contract.
- The employee is notified of the right to consult with an attorney regarding the agreement and is provided with at least five business days to do so.
- Repayment is prorated based on the remaining term of the retention period, not to exceed two years, and not subject to accruing interest.
- The employee has the option to defer their receipt of the payment to the end of the retention period without any repayment obligation.
- An employer may only require repayment if the separation from employment is at the employee's sole discretion (i.e., the employee resigns) or is due to employee misconduct.

Employers using sign-on bonuses or other discretionary bonuses subject to repayment obligations should ensure that any new agreements entered into meet these parameters.

AB 692: The High-Level Do's and Don'ts

What Employers *Can No Longer Do*

- Require repayment of training or onboarding costs when an employee resigns or does not complete a minimum employment term.
- Tie sign-on or retention bonuses to repayment obligations based on length of service.
- Rely on legacy training repayment agreements that conflict with AB 692 for any contract entered into on or after January 1, 2026.
- Pursue or threaten repayment in ways that could be interpreted as retaliation.

What Employers *Should Do Now*

- Where needed, draft new agreements providing for the repayment of sign-on bonuses that comply with the new requirements of AB 692.
- Review and revise offer letters, onboarding packets, training materials, tuition agreements, and repayment language to ensure compliance for contracts executed on or after January 1, 2026.
- Assess whether existing training programs can be restructured to fit within the statute's limited exception for voluntary, transferable training.
- Train HR, recruiting, and operational teams to avoid using outdated agreements or inadvertently committing to now-prohibited terms.
- Shift retention strategies toward professional development, role progression, performance-based incentives, and workplace culture rather than financial penalties tied to duration of employment.

Employer Takeaways

AB 692 reinforces California's long-standing view: employees should be able to leave a job without

financial penalties for doing so and applies that view in new contexts. Employers using sign-on bonuses with repayment obligations should pay special attention to making sure any new employment agreements are compliant with the new requirements.

While this law restricts common employer practices—especially in industries with significant onboarding or specialized training costs—it does not prevent employers from investing in workforce development. It simply requires that those investments be structured without repayment triggers that limit employee mobility. With the law applying to **contracts executed on or after January 1, 2026**, employers should begin reviewing templates and policies now to avoid compliance gaps.

If you have any questions regarding AB 692, please contact a member of our Kelley Drye Labor and Employment team.