Morrison Cohen

Client Alert | March 3, 2026

The End of "Stay-or-Pay" Provisions: How New Laws in California and New York Affect Your Business

Both California and New York have recently enacted laws to place restrictions on "stay-or-pay" provisions, which generally require workers to repay employer costs where the worker's employment ends prior to the expiration of a specified period. California's Assembly Bill 692 went into effect on January 1, 2026. New York's "Trapped at Work Act" initially went into effect on December 19, 2025; however, New York Assembly Bill A9452, which amends the New York Trapped at Work Act and delayed its enforcement, was recently signed by Governor Kathy Hochul.

Given that these recent laws broadly prohibit stay-or-pay provisions, subject to narrow exceptions, employers in both California and New York should take note of the new requirements when reviewing and drafting existing and new offer letters and employment agreements.

California Assembly Bill 692

Restrictions on Stay-or-Pay Provisions

AB 692, which amends the California Business and Professions Code, went into effect on January 1, 2026 and only applies to stay-or-pay provisions executed, amended, or renewed on or after that date. Under the law, California employers are banned from requiring workers to pay the employer a debt if the worker's employment or work relationship ends.

Specifically, where a worker's employment or work relationship terminates, AB 692 prohibits:

- Requiring a worker to repay a debt to the employer (or a training provider or debt collector).
- Authorizing the employer (or training provider or debt collector) to resume or initiate collection of (or end forbearance on) a debt.
- Imposing a penalty, fee, or cost on a worker.

The definition for "debt" under the law is drafted broadly and means: "money, personal property, or their equivalent that is due or owing or alleged to be 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." A "worker" includes both current and prospective employees.

Narrow Statutory Exceptions

AB 692 also includes very specific exceptions to which the prohibition on stay-or-pay provisions does not apply. This includes agreements regarding:

- **Limited Exception for Signing Bonuses**: An agreement concerning the receipt of a discretionary or unearned monetary payment, which includes a monetary signing bonus, "at the outset of employment that is not tied to specific job performance," ***must satisfy*** the following statutory requirements:

  i. The terms of any repayment must be set forth in a separate agreement.
  ii. The employee must be notified in writing of his/her right to consult an attorney regarding the agreement and provided at least five business days to obtain advice of counsel prior to executing the agreement.
  iii. Repayment obligation for early separation must not be subject to interest accrual and is prorated based on the remaining term of any retention period not exceeding two years.
  iv. The employee must have the option to defer receipt of the payment to the end of a fully served retention period without any repayment obligation.
  v. Separation from employment prior to the retention period was at the sole election of the employee, or at the election of the employer for misconduct.

- **Loan Repayment**: A federal, state, or local government loan repayment assistance or loan forgiveness program.

- **Tuition Repayment**: Repayment of tuition costs for a transferable credential that meets explicitly defined statutory requirements. The statute defines a "transferrable credential" as "a degree that is offered by a third-party institution that is accredited and authorized to operate in the state, is not required for a worker's current employment, and is transferable and useful for employment beyond the worker's current employer."

- **Apprenticeship Programs**: Enrollment in an apprenticeship, as defined by state standards.

- **Residential Property Repayment**: The lease, financing, or purchase of residential property.

Enforcement of AB 692

The new law deems stay-or-pay provisions, which reputedly restrain the worker from engaging in their profession, trade, or business, as void and against public policy. The new law provides a private right of action for those affected by the statute and for potential damages of $5,000 per worker.

New York Trapped at Work Act

New York's Trapped at Work Act amends the New York Labor Law and, like California's AB 692, prohibits the use of employment promissory notes, or similar provisions in employment agreements that bind workers to repay employers when their work relationship ends before the passage of a specific period of time.

In January 2026, an amendment to New York's Trapped at Work Act (the "Amended Act") was passed in the State Assembly and Senate. Governor Hochul signed the Amended Act on February 13, 2026. The Amended Act delays the effective date, and enforcement, of New York's Trapped at Work Act for one year. The Amended Act largely parallels California's AB 692.

New York's Trapped at Work Act and the Amended Act use the term "employment promissory note" when referring to the type of repayment provisions prohibited under the law. Prior to the Amended Act, it defined "employment promissory note" as any agreement provision "that requires a worker to pay the employer, or the employer's agent or assignee, a sum of money if the worker leaves such employment before the passage of a stated period of time" and included any agreement requiring "reimbursement for training provided to the worker by the employer or by a

third party." The law included a broad definition of "workers," which encompassed non-employees, including independent contractors.

The Amended Act, however, changes the law to replace "worker" with "employee" and narrows the definition of "employer" to exclude third party contractors. Under the Amended Act, the definition of an "employment promissory note" is changed to mean any provision that requires an employee to make payment if the employee's employment terminates before the passage of a stated period, rather than only if the worker leaves such employment before the passage of a stated period of time.

Under both the Trapped at Work Act and the Amended Act, the execution of an "employment promissory note" is considered unconscionable, against public policy, and unenforceable as a matter of law. While such a provision is deemed null and void, if it is part of a larger agreement, the invalidity of the employment promissory note provision does not affect the enforceability of the remainder of the agreement.

Exceptions

The New York Trapped at Work Act also provides very specific exceptions to the prohibition on stay-or-pay provisions, including agreements that:

- Require the worker to repay the employer any advances, unless such advances were used to pay for training related to the worker's employment with the employer.
- Require the worker to pay the employer for any property the employer sold or leased to the worker.
- Require educational personnel to comply with terms or conditions of sabbatical leave, granted by their employer.
- Are entered into by an employer and the workers' collective bargaining representative.

The Amended Act creates significant updates to the exceptions provision of the law. For example, the Amended Act provides for revised and additional exceptions to the prohibition on stay-or-pay provisions, including agreements that:

- Require the employee to repay financial bonuses such as a signing bonus, relocation assistance, or other non-educational incentives (or other payment that is not tied to specific job performance), "**unless the employee was terminated for any reason other than misconduct** or the duties or requirements of the job were misrepresented to the employee."
- Require the employee to reimburse the employer for costs related to tuition, fees, and required educational materials for a "transferable credential" that meets specific requirements.
- Require the employee to pay the employer for property that the employer sold or leased to the employee (so long as the transaction was voluntary).
- Require educational personnel to comply with terms or conditions of sabbatical leave, granted by their employer.
- Are entered into by an employer and the employees' collective bargaining representative.

The Amended Act also adds and defines the term "transferrable credential" to mean: "any degree, diploma, license, certificate, or documented evidence of skill proficiency or course completion that is widely recognized by employers in the relevant industry as a qualification for employment;" "transferrable credentials" do not include "employer-specific or non-transferrable training" or "mandated safety and compliance training" (both of which are also explicitly defined under the Amended Act).

Enforcement

Unlike California's AB 692, there is no private right of action under the New York Trapped at Work Act nor the Amended Act, and the law is enforced by the New York State Department of Labor ("NYSDOL"). The law calls for

fines between $1,000 and $5,000 per violation. The Amended Act also clarifies that a current or prospective employee may file a complaint with the NYSDOL.

Neither the New York Trapped at Work Act nor the Amended Act addresses whether it will apply retroactively and whether the NYSDOL will enforce the law for agreements signed before the effective date.

Next Steps for California and New York Employers

California and New York employers should take prompt action to ensure compliance with state restrictions on stay-or-pay provisions in any agreements or policies they are using with their workforce. This includes a review of existing employment agreements, offer letters, employee handbooks, and other related agreements and policies to determine whether revisions must be made in light of recent legislation. Employers should be mindful to confirm that any newly drafted agreements or arrangements do not contain impermissible stay-or-pay provisions. Where an exception applies, employers must verify that any specific statutory requirements outlined in the respective laws are met and properly documented.

Key Contacts

Our Labor & Employment Law team is available to assist employers in attaining compliance with all New York and California Labor Laws, including the California AB 692 and New York Trapped at Work Act and related amendments, as well as responding to related complaints and investigations, in addition to any other employment law issues.

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