New CA and NY Laws Target "Stay-or-Pay" Arrangements

By Steven J. Pearlman & Justin Chuang on January 12, 2026

California and New York recently enacted statutory restrictions aimed at "stay-or-pay" arrangements: California AB 692 (Cal. Bus. & Prof. Code § 16608 & Cal. Lab. Code § 926) and the New York Trapped at Work Act (N.Y. Lab. Law art. 37, §§ 1050-1055), respectively. Such arrangements are contractual provisions that, while falling short of a non-competition agreement, make it costly for a worker to leave the company, often by requiring repayment of training costs, financial incentives, or other sums upon separation.

Together, these laws signal a shift in worker-mobility policy, with state legislatures now focusing on limitations that go beyond restrictive covenants.

Scope

California's statute applies to contracts entered into on or after January 1, 2026. It broadly reaches terms in an "employment contract" or any agreement required as a condition of employment or other work relationship and that require a worker to pay a "debt" upon termination of employment, allow collection to begin or resume upon termination of employment (or end a forbearance), or impose any "penalty, fee, or cost" if the relationship ends. The definition of "penalty, fee, or cost" is expansive, and includes, among other things, various "quit fees," replacement-hiring or retraining costs, immigration-related reimbursement, and other amounts representing company losses.

New York's statute is more narrow. It prohibits employers from requiring, as a condition of employment, that a worker or prospective worker sign an instrument requiring payment if the worker leaves before a specified time, including where payment is characterized as reimbursement for employer- or third-party-provided training.

Who Is Covered?

Both statutes are broad in their coverage. California's statute applies to "workers," expressly including employees and prospective employees, and defines "employer" to include a range of affiliated or related entities and agents.

New York's statute broadly covers "workers," which it defines to include employees, independent contractors, interns, apprentices, volunteers, sole proprietors providing services, and individuals providing services through an entity (with a carve-out for vendors of goods). It also covers affiliated entities that provide training.

Key Exceptions

California's statute includes several detailed carve-outs, including:

- Certain government loan repayment/forgiveness programs;
- Specified tuition repayment arrangements for a "transferable credential" that meet multiple conditions (including advance disclosure, proration, and limits on triggering events);
- Approved apprenticeship program agreements; and

- Certain repayment arrangements tied to discretionary up-front payments that satisfy structured requirements (including a separate agreement, a five-business-day review period, proration without interest, and a retention period cap).

New York's statute expressly excludes agreements requiring repayment of sums advanced to the worker, unless used to pay for employment-related training, agreements requiring payment for property sold or leased to the worker, certain sabbatical arrangements for educational personnel, and programs agreed to with a union representative.

Enforcement and Remedies

California provides an express private right of action, including actual damages or $5,000 per worker (whichever is greater), injunctive relief, and attorneys' fees and costs.

New York primarily relies upon administrative enforcement, authorizing the Commissioner of Labor to assess civil penalties of $1,000 to $5,000 per violation (per affected worker), and it also allows for attorney fee recovery for a "worker or prospective worker" who successfully defends an employer's lawsuit seeking to enforce a void promissory note.

A Trend Towards Mobility-First Policies

These "stay-or-pay" laws fit within a broader trend of restraints on worker mobility drawing scrutiny. Legislatures and courts in states around the country have continued to impose limits, and while the Federal Trade Commission ("FTC") has abandoned its prior rule banning non-compete agreements, it has signaled that it may take action through case-by-case enforcement (as we discussed here). It's worth noting, though, that many so-called "stay-or-pay" arrangements are grounded in business concerns, such as when an employer invests in training a worker, and then that worker leaves when the training concludes to perform the same work at a competitor.

Next Steps

With an eye towards conforming to and complying with California and New York's new limitations on stay-or-pay arrangements, affected employers should consider closely reviewing: arrangements with candidates and new hires that impose separation-triggered repayment or financial consequences, including training repayment agreements, tuition-assistance clawbacks, sign-on/retention bonus repayment provisions, relocation repayment, liquidated damages clauses attendant to employee mobility, and collection/forbearance terms tied to termination.

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NOTE: On January 6, 2026, New York state legislators introduced an amendment to the Trapped at Work Act, which would postpone the effective date of the Act, revise several definitions, provide exceptions for certain agreements, and alter the enforcement scheme of the Act. See below for more detail.

New York State Trapped At Work Act Amended and Effective Date Delayed

By Allan Bloom, Evandro Gigante & Laura Fant on February 19, 2026

Governor Kathy Hochul has signed into law a bill amending New York State's "stay or pay" law. Among key changes, the law's enforcement date has been delayed by one year.

As we previously reported, on December 19, 2025, Governor Hochul signed into law the Trapped at Work Act which prohibits employers from requiring as a condition of employment that any current or prospective worker execute "any instrument, agreement, or contract 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," including any provision stating that such repayment "constitutes reimbursement for training provided to the worker by the employer or by a third party." The Act as originally drafted contained certain exclusions; however, Governor Hochul raised concerns about ambiguities in the original Act thus spurring prompt amendment of the original law. The original Act also provided that it was effective immediately.

Under the Act as now amended, the Act will expressly carve out any agreement that "requires the employee to reimburse the employer for the cost of tuition, fees, and required educational materials for a transferable credential" where the agreement:

- is set forth in a written contract that is offered separately from any contract for employment;
- does not require the employee to obtain the transferable credential as a condition of employment;
- specifies the repayment amount before the employee agrees to the contract, and the repayment amount does not exceed the cost to the employer of the tuition, fees, and required educational materials;
- provides for prorated repayment during the repayment period proportional to the total repayment amount and does not require an accelerated payment schedule if the employee separates from the employment; and
- does not require repayment if the employee is terminated, unless terminated for misconduct.

The amendments define a "transferable credential" as a degree, license, certificate, etc. that evidences skills or proficiency that is relevant to employers generally throughout an industry and would distinguish it from both: (a) training that is employer-specific (such as training on an employer's proprietary systems or processes or other instruction that does not qualify an employee for a new title, classification, credential, etc.); and (b) training that is mandated by federal, state or local law.

Notable for employers that offer signing bonuses, retention bonuses, and the like, the amended Act will now also specifically carve out any agreement requiring an employee to "repay a financial bonus, relocation assistance, or other non-educational incentive or other payment or benefit 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."

Further, the amendments limit the scope of covered individuals under the Act from the previous "worker" (which would have included not only employees but also independent contractors, interns, externs, and volunteers) to only "employee," defined as "any person employed for hire by an employer in any employment."

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As noted above, the amendments revise the effective date of the Act to "one year after it shall have become a law." There is some ambiguity, however, as to whether this means one year after the signing date of the original Act (December 19, 2025) or one year after the signing of the amendments to the Act (February 13, 2026). We will continue to monitor for any clarifications on this point, but in no event will enforcement of the amended Act begin prior to December 2026.

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