

California's Latest Salvo to Protect Employee Mobility – What Employers Need to Know

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On October 13, 2025, Governor Newsom signed into law California Assembly Bill 692 that prohibits certain “stay-or-pay” clauses in employment-related contracts. The law, designed to protect employee mobility, applies to all employers and will go into effect for contracts entered into in California on or after January 1, 2026.

The new law, codified under Business and Professions Code Section 16608 and Labor Code Section 926, will make it unlawful for an employer, unless certain specified conditions are met, to include in any contract (defined to include any promise, undertaking or agreement, written or oral) with a worker, including an employee or prospective employee, a provision that requires the individual, when the employment or work relationship with the employer terminates, to do any of the following:

- A. Pay an employer, training provider or debt collector for a debt.
- B. Authorize the employer, training provider or debt collector to resume or initiate collection of or end forbearance on a debt.
- C. Impose any penalty, fee, or cost on a worker, which includes any replacement hire fee, retraining fee, quit fee, reimbursement for immigration or visa-related costs, liquidated damages, lost goodwill or lost profit.

The law excepts contracts relating to certain federal, state and local loan repayment assistance and forgiveness programs, enrollment in apprenticeship programs approved by the Division of Apprenticeship Standards, and contracts related to the lease, financing or purchase of residential property.

There also is an exception applicable to a contract for the receipt of a discretionary or unearned monetary payment, paid at the outset of employment, that is not tied to specific job performance, provided that certain conditions are met. In those cases, for example, the repayment terms must be set forth in a separate agreement which notifies the employee of the right to consult an attorney and provides at least five (5) business days for the employee to obtain such advice. In addition, repayment can only be required if the employee leaves voluntarily or is terminated for “misconduct” prior to the retention period, which cannot exceed two (2) years, and the amount to be repaid must be prorated based on the remaining term.

The law further contains a separate exception relating to the repayment of the cost of tuition for a degree offered by an accredited third-party institution in California that is not required for the current employment but that is useful for other employment, as long as specified conditions are met.

Unlawful contracts under the new law will be deemed void and against public policy. Violations may result in a civil action on behalf of the impacted worker, or others similarly situated, or both. Workers can recover actual damages, or \$5,000 per worker, whichever is greater, in addition to injunctive relief and reasonable attorney’s fees and costs.

As with many statutory enactments, the law includes nuanced definitions and leaves open many unanswered questions likely to be addressed by courts. Employers should review their existing contracts relating to training costs, relocation expenses, signing bonuses, educational costs, and other retention and loan programs subject to California law to identify any “stay-or-pay” provisions or other terms that may now be prohibited by this new law.

If you have any questions or need assistance identifying, auditing or updating applicable agreements, please contact **Thomas H. Petrides** at tpetrides@vedderprice.com, **Frederic T. Knape** at fknape@vedderprice.com or any Vedder Price attorney with whom you have worked.

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