California Bans TRAPs and Stay-or-Pay Provisions

Provided to you by **Employco USA, Inc.**

On Oct. 13, 2025, California passed a bill to ban certain training and retention repayment provisions (TRAPs) and other stay-or-pay provisions in employment contracts. The new law takes effect **Jan. 1, 2026**.

New Law Overview

For contracts entered into on or after Jan. 1, 2026, employers will be prohibited from including in any employment contract or requiring, as a condition of employment, a contract term that does any of the following:

- Requires the worker to pay an employer, training provider or debt collector for a debt if the worker's employment or work relationship with a specific employer terminates;
- Authorizes the employer, training provider or debt collector to resume or initiate collection of or end forbearance on a debt if the worker's employment or work relationship with a specific employer terminates; or
- Imposes any penalty, fee or cost on a worker if the worker's employment or work relationship with a specific employer terminates.

Exceptions

The new law does not apply to contracts:

- Entered into under a loan repayment assistance or forgiveness program;
- Related to repayment of the cost of tuition for a transferable credential if:
    - It is offered separately from any employment contract;
    - The obtaining of the credential is not a condition of employment;
    - It specifies the repayment amount before the worker agrees to the contract, and such amount does not exceed the cost of the credential;
    - It provides for prorated repayment proportional to the total repayment amount and length of required employment period, and it does not require an accelerated payment schedule if the worker separates from employment; and
    - It requires repayment only if the worker resigns voluntarily or is terminated for misconduct;
- Related to enrollment in approved apprenticeship programs;

Highlights

Oct. 13, 2025
California enacts a new law banning most stay-or-pay provisions in employment contracts.

Jan. 1, 2026
The new law takes effect.

Effective Jan. 1, 2026, California employers may not enter into stay-or-pay agreements in most circumstances.

- For discretionary or unearned monetary payments (including financial bonuses) at the outset of employment that are not tied to job performance, if:
  - Repayment terms are set forth in a separate agreement;
  - The employee is notified of the right to consult an attorney and given at least five business days to do so;
  - Any repayment obligation for early separation is not subject to interest accrual and is prorated for the remainder of the retention period, up to two years from the receipt of payment;
  - The worker may defer payment to the end of the retention period without any repayment obligation; and
  - Repayment is only required if the employee voluntarily resigns or is terminated for misconduct; or
- Related to leasing, financing or purchasing residential property.

Penalties

Employees alleging violations of the law may file a civil action to seek actual damages or a $5,000 penalty (whichever is greater), injunctive relief and attorney fees and costs.

Next Steps for Employers

In advance of the law’s effective date, employers may begin reviewing and updating existing contract templates to ensure they do not contain any unlawful TRAPs or stay-or-pay provisions. Employers may also consider revising any unlawful contracts or repayment programs to comply with one of the law’s enumerated exceptions.