

California

California Delays Stay-or-Pay Ban

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 law was scheduled to take effect on Jan. 1, 2026. On Sept. 30, 2026, California [amended](#) the law to delay its effective date until **Jan. 1, 2027**, and establish additional exceptions to the ban.

Overview of New Law as Amended

For contracts entered into on or after **Jan. 1, 2027** (delayed from 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 amendment adds **new exceptions**. Specifically, the law does not apply to contracts:

- Entered into pursuant to a recruitment and retention program funded by a government agency grant that offers recruitment or retention bonuses, if the repayment obligations comply with the grant's requirements and do not exceed the grant's service obligations;
- For the receipt of a discretionary or unearned monetary payment that is an inducement for the worker to be affiliated with the employer or to agree to maintain a relationship with the employer, if:
 - The repayment terms are in an agreement separate from the employment contract;
 - The payment is in addition to compensation otherwise payable to the worker in connection with their employment;
 - The worker is notified of the right to consult an attorney and given not less than five business days to obtain advice of counsel before executing the agreement;

Highlights

Oct. 13, 2025

California passed a bill banning certain TRAPs and other stay-or-pay provisions.

Sept. 30, 2026

California amended the law to delay its effective date and establish new exceptions.

Jan. 1, 2027

The law takes effect.

- If a repayment obligation continues after separation from employment and interest accrues on such obligation, the interest rate does not exceed the applicable federal income tax rate published by the Internal Revenue Service; and
- The contract is between a licensed securities broker-dealer, insurance provider, investment adviser or their affiliates, agents or representatives; or
- With a repayment obligation arising from a voluntary separation from employment related to an advanced payment for paid time off in excess of a worker's accrued paid time off, if:
 - The terms are clearly disclosed to the worker, separate from any employment contract, upon the worker's request to receive advance payment for paid time off;
 - The repayment obligation does not exceed 40 hours of accrued paid time off; and
 - The repayment obligation is not subject to interest accrual.

The law also **modifies** the exception for discretionary bonuses. Specifically, the law does not apply to a contract for discretionary or unearned monetary payments (including financial bonuses) 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.

Previously, this exception only applied to agreements made at the outset of employment.

A number of exceptions remain **unchanged**. Specifically, the law still 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; 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

To the extent they have not done so already, employers may review and update existing contract templates to ensure they do not contain any unlawful TRAPs or stay-or-pay provisions prior to the law's new effective date. Employers may also consider revising any unlawful contracts or repayment programs to comply with one of the law's enumerated exceptions.
