AB 692: California Bans Employers From Requiring Departing Employees to Repay Training Costs And Other Debts

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PROFESSIONAL



MICHAEL SHIMADA
Associate
San Francisco



KARL A. SCHMITZ
Partner
Los Angeles

Many California employers, including health providers, provide their employees with valuable training, technology or home office stipends, tuition repayment, and other benefits. Often, employers will include provisions in their employment agreements that require their employees to repay these costs if they leave their employment within a specified window of time (e.g., within 1 year of using a stipend or attending an employer-paid training or conference). A new California law that goes into effect on January 1, 2026, AB 692, significantly limits when an employer can require an employee to repay these costs.

The Basic Prohibition

For contracts that are entered into on or after January 1, 2026, AB 692 will make it unlawful for employers to include in any employment agreement, or to require a "worker" to execute, as a condition of their employment, a contract that does any of the following upon termination of the worker's employment (or work relationship) with the employer:

1. Requires the worker to repay the employer, training provider, or debt collector for a "debt";
2. Authorizes the employer, training provider, or debt collector to resume or initiate collection of, or end forbearance on, a "debt"; or
3. Imposes any penalty, fee, or cost on the worker.

The term "debt" is broadly defined to include 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, and specifically includes employment-related costs, education-related costs, or a consumer financial product or service. Consequently, absent meeting a specific exception, an employer will no longer be able to require a worker whose employment or work relationship with the employer ends to repay it for training costs, technology or home office stipends, tuition repayment, and other benefits provided to the employee.

AB 692 notably uses the term "worker" instead of "employee" and states that "'worker' includes, but is not limited to, an employee or prospective employee." Although legislators removed the express references to independent contractors, freelance workers, externs, interns, apprentices, and sole proprietors that an earlier draft of the law included, there remains ambiguity as to what other categories fit into AB 692's "worker" definition.

Key Exceptions

AB 692's prohibition does not apply to the following:

Government Loan Assistance or Repayment Programs: A contract entered into under any loan repayment assistance program or loan forgiveness program provided by a federal, state, or local governmental agency.

Certain Tuition Repayment Contracts for Transferable Credentials: Tuition repayment for a transferable credential if the contract:

1. Is offered separately from any contract for employment;
2. Does not require obtaining the transferable credential as a condition of employment;
3. Specifies the repayment amount before the worker agrees to the contract, and the repayment amount does not exceed the cost to the employer of the transferable credential received by the worker;
4. Provides for a prorated repayment amount during any required employment period that is proportional to the total repayment amount and the length of the required employment period and does not require an accelerated payment schedule if the worker separates from the employment; and
5. Does not require repayment to the employer by the worker if the worker is terminated, except if the worker is terminated for misconduct.

A "transferable credential" is defined to mean a degree that is (1) offered by a third-party institution that is accredited and authorized to operate in the state, (2) not required for the worker's current employment and (3) is transferable and useful for employment beyond the worker's current employer.

Signing or Retention Bonuses: A contract for a discretionary or unearned payment, including a financial bonus, at the beginning of employment that is not tied to the employee's job performance, provided that:

1. The repayment terms are included in an agreement separate from the primary employment contract;
2. The employees are notified that they have the right to consult an attorney regarding the agreement and are given a reasonable time period of at least five business days to do so before executing the agreement;
3. The repayment obligation for early separation from employment is not subject to interest and is prorated based on the remaining term of the retention period, which cannot exceed two years from the employee's receipt of the payment;
4. The employee has an option to defer receipt of the payment to the end of the retention period without any repayment obligation; and
5. The employee's separation from employment prior to the retention period was either at the employee's sole election, or at the employer's election for employee misconduct.

Penalties and Enforcement

Importantly, AB 692 is not retroactive; so, repayment provisions in existing employment agreements are unaffected and remain enforceable. However, employment agreements entered into after January 1, 2026, that contain prohibited repayment provisions are not only void and unenforceable, they are unlawful. An employer found liable for including a prohibited repayment provision is subject to minimum damages of $5,000 per affected employee, in addition to injunctive relief and attorney's fees.

Why It Matters

Repayment provisions are common in the healthcare industry. As the new year approaches, providers should review their template employment agreements and update them to comply with AB 692. Providers who want to implement signing or retention bonuses, or to seek employee repayment for tuition costs, should remove those provisions from general employment agreements and place them into separate agreements that meet AB 692's requirements.

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