

California Amends ‘Stay or Pay’ Law to January 1, 2027, and Expands Exceptions

October 8, 2026

California recently enacted [AB 1697](#), delaying by one year the operative date of AB 692, California’s law restricting “stay or pay” provisions, and expanding its exceptions.

Background

As [described in a November 2025 alert](#), AB 692 applies to contracts entered into on or after January 1, 2026, and prohibits provisions requiring a California worker to repay a “debt,” or imposing any other penalty, fee or cost, upon termination of employment. A key exception covers discretionary or unearned payments made at the outset of employment that are not tied to job performance (e.g., sign-on or relocation bonuses), provided they meet certain conditions – including that the repayment terms appear in a separate contract, and the worker is notified of the right to consult an attorney and given at least five business days to do so.

Employers that violate the law face liability for actual damages or \$5,000 per worker, whichever is greater, plus injunctive relief and attorneys’ fees and costs. Workers may bring claims on behalf of themselves and similarly situated workers.

What has changed

Delayed effective date

AB 1697 moves AB 692’s operative date to January 1, 2027, giving employers, in the legislature’s words, “an additional year to structure their employment contracts free of debt traps or quit fees that penalize workers who choose to exercise their freedom of employment.” AB 1697 also makes AB 692 inoperative from January 1, 2026, through December 31, 2026, so no liability accrues for that period, and any pending claim based on conduct during that window is moot.

Modified bonus exception

AB 1697 makes substantive changes to the discretionary or unearned bonus exception. Significantly, it removes the requirement that the bonus be paid “at the outset of employment,” so qualifying bonuses paid at any point during employment may now fit within the exception, provided they still meet the following conditions:

1. Repayment terms are contained in a contract separate from the employment contract
2. The worker is notified that they have the right to consult an attorney regarding the agreement and given at least five business days to do so.
3. Any repayment obligation is prorated based on the remaining term of any retention period (not to exceed two years) and is not subject to interest accrual.
4. The worker can defer receipt of payment to the end of a fully served retention period without any repayment obligation.
5. Separation from employment before the retention period is at the worker’s sole discretion, or at the employer’s election due to worker misconduct.

Advanced PTO payments exception

AB 1697 also adds a new exception for repayment obligations that arise from a worker’s voluntary separation, where the obligation relates to an advanced paid time off (PTO) payment exceeding the worker’s accrued balance. To qualify, the exception requires that:

1. The repayment terms are disclosed to the worker, separately from the primary employment contract, upon the worker's request for the advanced PTO payment.
2. The repayment obligation does not exceed 40 hours of accrued PTO.
3. The repayment obligation is not subject to interest accrual.

What hasn't changed

The underlying prohibitions, the definition of "debt" and other existing exceptions (including the transferable-credential tuition exception) remain unchanged, as do the civil remedies for violations (actual damages or \$5,000 per worker, whichever is greater, plus injunctive relief and attorneys' fees and costs).

Next steps

The delay gives employers additional time to bring repayment arrangements into compliance. Employers should use this time to review and revise bonus and retention arrangements, train relevant teams on the updated law, and stay alert to similar restrictions in other jurisdictions, such as [New York](#) and [Washington](#).

If you have any questions about these laws or how to comply, please contact your Cooley employment lawyer or one of the lawyers listed below.

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