

Action Required for Many Employers as New California Law Restricts Sign-On Bonuses for Employees Starting January 1

December 15, 2025

California Assembly Bill 692 generally prohibits most “stay or pay” requirements that are commonly included in starting bonus programs, unless they comply with new requirements. For companies that rely on sign-on bonuses to compete for talent, the impact is clear: **Most sign-on bonuses with a clawback provision will be impermissible in California unless they are structured to fit a narrow exception.** The law will apply to agreements containing such provisions entered into on or after January 1, 2026.

AB 692 prohibits provisions that require an employee to repay a “debt” to their employer if their employment terminates, or that otherwise impose a penalty, fee or cost on a worker if the worker’s employment or work relationship terminates.

Two key exceptions to this prohibition include:

- **Transferable credential tuition costs:** A contract to repay the cost of tuition for a transferable credential is permitted, if the contract meets all of the following conditions:
 1. The contract is separate from the employment contract.
 2. Obtaining the transferable credential is not a condition of employment.
 3. The contract specifies a repayment amount not exceeding the actual cost of the credential to the employer.
 4. The repayment amount is prorated and is not accelerated if the worker separates.
 5. No repayment is required if the worker’s employment is terminated by the employer, unless for misconduct.
- **Discretionary monetary bonuses:** Contracts for the receipt of a “discretionary or unearned monetary payment” at the outset of employment that is not tied to specific job performance (including a financial bonus, such as a sign-on or relocation bonus) are permitted, if the contract meets all of the following conditions:
 1. Repayment terms are contained in a contract separate from the employment contract.
 2. The employee 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 prior to the end of the retention period is at the employee’s sole discretion, or at the employer’s election due to employee misconduct.

In practice, **many existing form documents containing sign-on bonus provisions will not satisfy these conditions and should not be used with California hires after December 31, 2025.** Employers that violate this new law will be responsible for liability in the amount of actual damages or \$5,000 per worker, whichever is greater, plus injunctive relief and attorneys’ fees and costs.

Companies that seek to offer sign-on bonuses for California employees should work with counsel now to develop California-compliant approaches.

AB 692 is only one of several new California laws affecting California employers. For a deeper dive on AB 692 and other new changes to California employment laws, see this [November 24 Cooley alert](#).

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