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New California Law Restricts Ability to Compel Repayments From Employees Upon Termination

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Earlier this year, California enacted Assembly Bill 692, which could dramatically affect many common techniques used by employers to recover funds from terminating employees. As further described in this November 24 client alert, for employment contracts entered into on or after January 1, 2026, the new law generally prohibits inclusion of (or requiring a worker to execute as a condition of employment or work relationship a contract that includes) any provision:

- Requiring 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.
- Authorizing 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.
- Imposing any penalty, fee or cost on a worker if the worker's employment or work relationship with a specific employer terminates.

There are exceptions to these general prohibitions, but the new law may dramatically restrict many currently common employment practices. For example, it appears that it will be impermissible to require repayment of a sign-on bonus without compliance with one of the specific exceptions.

There are many unanswered questions about the new law and no clear timing on the availability of any interpretive guidance. For example:

- Does the law apply where someone enters into a prohibited contract outside of California and then moves to California?
- Does the law apply to equity awards?
- Does the law have any effect on clawback rights mandated by Dodd-Frank or Sarbanes-Oxley?

Because of the lack of guidance on the scope and proper interpretation of the new law, clear answers to these questions and many others likely will not be available anytime soon.

Injunctive relief and monetary penalties are available for violations of the new requirements. Employers contemplating entering into potentially problematic arrangements should consider doing so before January 1, 2026, if possible. Employers entering into new agreements on or after January 1, 2026, should closely coordinate with counsel to make sure they properly take the new law's requirements into account. Cooley's compensation and benefits and labor and employment teams are available to guide you through this uncertain new landscape.

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