
SENATE COMMITTEE ON LABOR, PUBLIC EMPLOYMENT AND RETIREMENT
Senator Lola Smallwood-Cuevas, Chair
2025 - 2026 Regular

Bill No: AB 1697 **Hearing Date:** June 10, 2026
Author: Kalra
Version: April 13, 2026
Urgency: Yes **Fiscal:** Yes
Consultant: Alma Perez-Schwab

SUBJECT: Employment contracts: stay-or-pay provisions: contract date

KEY ISSUES

This bill delays for one year, until January 1, 2027, the effective date of AB 692 (Kalra, Chapter 703, Statutes of 2025) which prohibits an employment contract from including any provisions that require a worker to assume a debt if their employment concludes before the end of the contract's term, as specified, and includes an urgency clause.

ANALYSIS

Existing law:

- 1) For contracts entered into *on or after January 1, 2026*, makes it unlawful to include in any employment contract, or to require a worker to execute as a condition of employment or a work relationship, a contract term that does any of the following:
 - a) 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.
 - b) 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.
 - c) Imposes any penalty, fee, or cost on a worker if the worker's employment or work relationship with a specific employer terminates.
(Business and Professions Code §16608(b)(1))
- 2) Exempts certain types of contracts from the above prohibition, including:
 - a) A contract entered into under any loan repayment assistance program or loan forgiveness program provided by a federal, state, or local governmental agency.
 - b) A contract related to the repayment of the cost of tuition for a transferable credential, provided that specified conditions are met.
 - c) A contract related to enrollment in an apprenticeship program approved by the Division of Apprenticeship Standards.
 - d) A contract for the receipt of a discretionary or unearned monetary payment, including a financial bonus, at the outset of employment that is not tied to specific job performance, provided that all of the following conditions are met:
 - i) The terms of any repayment obligation are set forth in a separate agreement from the primary employment contract.
 - ii) The employee is notified that they have the right to consult an attorney regarding the agreement and provided with a reasonable time period of not less than five business days to obtain advice of counsel prior to executing the agreement.

- iii) Any repayment obligation for early separation from employment is not subject to interest accrual and is prorated based on the remaining term of any retention period, which shall not exceed two years from the receipt of payment.
 - iv) The worker has an option to defer receipt of the payment to the end of a fully served retention period without any repayment obligation.
 - v) Separation from employment prior to the retention period was at the sole election of the employee, or at the election of the employer for misconduct.
- e) A contract related to the lease, financing, or purchase of residential property, as specified. (Business and Professions Code §16608(b)(2))
- 3) Provides that a contract that is unlawful under the above prohibition is void and contrary to public policy as a restraint of engaging in a lawful profession, trade, or business. (Business and Professions Code §16608(c) & Labor Code §926(a))
- 4) Authorizes a worker, or a worker representative acting on behalf of a worker(s), to bring a civil action for specified civil penalties and relief for a violation of these provisions. Any person found liable for a violation shall be liable for actual damages sustained by the worker or workers on whose behalf the case is brought, or five thousand dollars (\$5,000) per worker, whichever is greater, in addition to injunctive relief, and reasonable attorney's fees and costs. (Labor Code § 926(b)(c))

This bill:

- 1) Delays the effective date of the above provisions for one year so that the prohibitions apply to contracts entered into on or after January 1, 2027 and includes an urgency clause for the delay.

COMMENTS**1. Background:***“Stay or Pay” Provisions & Training Repayment Agreement Provisions (TRAPs):*

Employer-driven debt, also known as “stay or pay” provisions, refers to debt obligations incurred by individuals through employment arrangements that include employer provided training, equipment, or supplies, in exchange for worker commitments to work with the employer for a specified amount of time. Contract provisions specific to training are also known as Training Repayment Agreement Provisions or “TRAPs.” These arrangements require the worker to reimburse the employer for such expenses if the worker leaves the job before the specified date, even if the worker is fired or laid off.

As noted by California’s Attorney General in 2023, “Use of employer-driven debt products has grown substantially in recent years, potentially stifling competition in the labor market and forcing workers to remain in jobs that they would otherwise prefer to leave due to low pay or substandard working conditions. As a form of consumer debt, employer-driven debt may also expose workers to significant financial risk and predatory debt collection practices.

Employer-driven debt has been observed in numerous industries, including in healthcare, trucking, aviation, and the retail and service industries.”¹

A report by the Student Borrower Protection Center in 2022 estimated that three industries heavily reliant on the clauses – healthcare, trucking, and retail – employ one third of US workers.² A 2022 survey of registered nurses (RNs) found that nearly 40 percent of RNs who started their career in the past decade were subject to a TRAP for new graduate residency programs.³

Employers supportive of these provisions argue that these mutually beneficial arrangements help workers improve their resume/skills while protecting the employer’s investment in the professional development of their workers. Given the investments made by employers, they want to ensure that the workers they are investing in do not receive the incentives and then quit a few weeks later. Unfortunately, the warning by the AG, another issued by the U.S. Consumer Financial Protection Bureau, and multiple news sources reveal that these arrangements are literally “trapping” workers in jobs they do not want but cannot leave.

AB 692 (Kalra, Chapter 703, Statutes of 2025):

In response to the abusive use of these provisions, the Legislature passed and the Governor signed AB 692 (Kalra) last year to prohibit, with some exceptions, an employment contract from requiring a worker to pay certain penalties, fees, costs, or debts related to employment or education if the worker’s employment or work relationship terminates. In his signing message for the bill, Governor Newsom stated the following:

“I commend the author for advocating on behalf of workers who are trapped in employment contracts that impose significant financial repercussions for leaving their jobs. California has long been a national leader in adopting policies that promote competition for top talent. This includes the state’s longstanding prohibition on noncompete clauses, a policy that has helped attract top talent. So called “debt traps” in employment contracts appear to be a modern variation of noncompete agreements, keeping employees in their positions longer than necessary, stifling innovation, and preventing workers from reaching their full potential.

However, there is still more work to be done. I encourage the Legislature to enact follow-up legislation in 2026 to accommodate the collective bargaining process. Allowing these issues to be resolved through the collective bargaining process is appropriate because those agreements are tailored to the unique needs of workers and their employers.”⁴

This bill (AB 1697) would delay the effective date of the above provisions for one year so that the prohibitions apply to contracts entered into on or after January 1, 2027 and includes an urgency clause.

¹ California Department of Justice, Office of the Attorney General. “State Law Restrictions on Employer-Driven Debt.” Legal Alert No. OAG-2023-01, 7/25/2023. <https://oag.ca.gov/news/press-releases/attorney-general-bonta-issues-warning-against-unlawful-employer-driven-debt>

² Student Borrower Protection Center (July 2022), “Trapped at Work.” https://protectborrowers.org/wp-content/uploads/2023/12/stay-or-pay-compendium_12-2023_FINAL.pdf

³ National Nurses United (Dec. 2022), “Caught in a TRAP,” National Nurse Magazine. <https://nnumagazine.uberflip.com/i/1489186-national-nurse-magazine-october-november-december-2022/19?>

⁴ <https://www.gov.ca.gov/wp-content/uploads/2025/10/AB-692-Signing-Message.pdf>

2. Staff Comments:

Although this bill includes an urgency clause, the bill has moved through the legislative process following the regular legislative calendar, which means that if the bill makes it to the Governor and is signed, it would in essence, pause the provisions of AB 692 from when the bill is signed until January 1, 2027. This bill also does not include any provisions that would accommodate the collective bargaining process as the Governor encouraged in his signing message for AB 692.

Because of the timeline and the way the bill is written, it appears that the bill simply restates existing law which already makes TRAP provisions in 2027 contracts illegal/unenforceable. It is unlikely that the bill can retroactively change AB 692 which made TRAP provisions illegal/ unenforceable in 2026 and thereafter. At best, it might create a window from the date it's signed, presumably in September through December 31, 2026, where TRAP provisions once more become legal if the contract is entered into during that period. However, the bill does not expressly state its intent to do that. Therefore, it's equally plausible that AB 692 making TRAP contracts "entered into" in 2026 illegal would still be in force.

The author may wish to amend the bill to explicitly state its intent, whether it is to completely suspend the 2025 law so that any contract entered into in 2026 allows TRAP provisions or whether it is to only create a window from September 2026 to December 31, 2026 where TRAP provisions are allowed.

At the very least, this bill is introducing uncertainty into the effective dates of this law which may end up playing out in the courts. Staff notes that this bill has been double referred to Senate Judiciary Committee where, should this bill pass today, a more thorough analysis of contract law and the bill's implications on contracts entered into in 2026 can be made.

3. Need for this bill?

According to the author:

"Last year, the Legislature passed AB 692 (Kalra, Chapter 703, Statutes of 2025), which prohibits employment contracts going forward from including "debt traps" which forces workers to pay back a debt the employer says is owed if they leave, like employee training. This also applies to contract provisions that impose quit fees where an employer imposes a penalty simply because a worker wants the freedom to work somewhere else. AB 692 was carefully crafted to include limited exceptions and allowances for when an employer would be allowed to claw back benefits received by the employee. Specifically, AB 692 under provision (b)(2)(D) allows an employer to take back a monetary bonus given at hire if not tied to job performance and meets other conditions of disclosure and worker protection.

AB 1697 responds to the Governor's signing message of AB 692 by delaying the effective date a year so that only employee contracts signed on or after January 1, 2027 would be subject to the prohibitions of the bill. By doing so, this gives enough time to accommodate employers with a collective bargaining agreement to come into compliance with the law and it also gives all employers an extra year to structure their contracts free of debt traps or quit fees that punishes workers choosing to exercise their freedom of employment."

4. Proponent Arguments:

The National Football League is in support of the measure and write:

“AB 692, signed into law in 2025, addresses “stay-or-pay” provisions in employment contracts and makes unlawful certain agreements that require workers to assume debt upon separation from employment . We appreciate the Legislature’s intent to protect workers from exploitative practices and support policies that promote fair competition and worker mobility. However, as the Governor acknowledged in his signing message, there is “more work to be done” to accommodate the collective bargaining process, and he encouraged follow-up legislation in 2026 to allow these issues to be resolved through collective bargaining. Professional sports operate under comprehensive Collective Bargaining Agreements (CBAs) negotiated in good faith between leagues and players’ associations. Certain provisions implicated by AB 692 may be interpreted to intersect with these collectively bargained agreements in ways that were not intended by the author.

AB 1697 is an urgency measure that simply provides an implementation delay until January 1, 2027, allowing the Legislature, professional sports, and the Administration time to address these unintended impacts.”

5. Opponent Arguments:

None received.

6. Stakeholder Concerns:

A coalition that includes the American Council of Life Insurers, the Association of California Life and Health Insurance Companies, the California Bankers Association, the Financial Services Institute, the National Association of Insurance and Financial Advisors - CA, and the Securities Industry and Financial Markets Association are in SUPPORT IF AMENDED to extend the effective date of AB 1697 to January 1, 2028. They write the following:

“When a financial advisor with a sizeable client base moves firms, they are typically offered recruitment or transition assistance that is structured as a loan. Under these voluntary and mutually beneficial arrangements, the loan can be forgiven or repaid over time provided the advisor meets certain agreed upon goals and performance metrics. Should the advisor leave before the debt has been settled, repayment of the remaining portion of the loan is required.

These contracts and situations are vastly different from the type of debt arrangements AB 692 is trying to protect against. Financial advisors are sophisticated, well educated, and highly compensated professionals. They can effectively negotiate on their own behalf, and they can and often do hire counsel to represent them. Instead of trapping financial advisors, these contracts promote mobility. In addition, these advisors have a built-in dispute forum under FINRA Code of Arbitration Rule 13806, which provides expedited resolution of promissory note disputes.

Similarly, the new law could unintentionally impact longstanding and widely used insurance industry compensation and reconciliation practices. Insurance agents are commonly paid through commission-based structures that include advances and subsequent reconciliation tied to customer refunds, cancellations, chargebacks, reassignment of accounts, or other

routine adjustments connected to the provision of services. Clarifying that agreements allowing for the recovery or adjustment of previously paid or advanced compensation—limited strictly to amounts already paid and not imposed as a penalty—are permissible would help ensure the law does not inadvertently disrupt established business models or compensation systems that function to align incentives and protect consumers.

We respectfully request AB 1697 be amended to delay AB 692’s implementation until January 1, 2028. This will provide time to clarify the law’s intent and protect against unintended consequences that would upset longstanding compensation structures in the securities and insurance industries.”

7. Double Referral:

This bill has been double referred and if approved by this Committee today, will be sent to Senate Judiciary Committee for a hearing.

8. Prior/Related Legislation:

AB 692 (Kalra, Chapter 703, Statutes of 2025) makes it unlawful to include in any employment contract, specified contract terms that require a worker to assume a debt if the employment is terminated, except as provided; provides that the unlawful contract is a contract in restraint of trade and is void; and provides for a private right of action.

AB 747 (McCarty, 2023) would have prohibited an employer from entering into, presenting an employee or prospective employee as a term of employment, or attempting to enforce any contract in restraint of trade that is void, as specified. Additionally, the bill would have provided that an employer that violates this prohibition is liable for actual damages and an additional penalty per employee. *AB 747 died on Assembly Third Reading.*

AB 1076 (Bauer-Kahan, Chapter 828, Statutes of 2023) codified existing case law by specifying that the prohibition on noncompete agreements is to be broadly construed to void noncompete agreements or clauses in the employment context that do not satisfy specified exceptions. Additionally provides that a violation of the prohibition on noncompete agreements in employment constitutes unfair competition.

SB 699 (Caballero, Chapter 157, Statutes of 2023) strengthened California’s restraint of trade prohibitions by clarifying, among other things, that any contract that is void under California’s restraint of trade law is unenforceable regardless of where and when the contract was signed.

SUPPORT

National Football League

OPPOSITION

None received