Simpson Thacher

Memorandum

New York and California Restrict "Training Repayment" Provisions With Potentially Broader Implications

January 23, 2026

Over the past month, New York and California have each enacted similar laws aimed at restricting employers from requiring employees to repay the cost of mandatory trainings upon termination of employment. These types of repayment provisions typically impact lower-wage employees, and legislatures and employee advocates view them as a form of *de facto* non-compete that unfairly ties workers to their job, reducing economic mobility. While the intention of these laws is clear, the statutory language enacted in both New York and California is broad and has potential implications for other types of common arrangements as well, including repayable signing bonuses and employee loans.

New York: In New York State, the "Trapped at Work Act" (the "NY Act") became effective on December 19, 2025. The NY Act amends the New York Labor Code to prohibit any employer from requiring, as a condition of employment, any worker (which includes employees and independent contractors) to execute an "Employment Promissory Note". The definition of an "Employment Promissory Note" is written broadly to include "any instrument, agreement, or contract provision that requires a worker to pay the employer . . . a sum of money if the worker leaves such employment before the passage of a stated period of time." The definition specifically includes any provision that requires a worker to reimburse an employer for "training provided to the worker by the employer or by a third party". But by specifically including repayment of training costs as one of the prohibited activities, the NY Act leaves open the question as to what other activities it is prohibiting (and the NY Act does not list any other examples).

The NY Act includes an exception allowing employers to require repayment of "any amounts advanced to the worker, unless the amounts were used to pay for required training." However, the term "advanced" is not defined, and the scope of this exception is not clear. While there are good arguments that a signing bonus with a retention component is simply an advancement subject to the condition of remaining employed through a certain period of time, that interpretation is uncertain. This issue may become moot as the New York Legislature has already begun working on updating the NY Act, including by replacing this exception as described below. Also excluded from the NY Act's coverage are programs agreed to by unionized workers, payments for property an employer has sold or leased to the worker, and terms and conditions of sabbatical leaves for educational personnel.

In the memorandum issued in connection with her signing of the NY Act, Governor Hochul asked the New York Legislature to issue clarifying amendments during this upcoming session. On January 8, 2026, amendments were

introduced that would, among other things, narrow the definition of "employer," limit the law to employees only, replace the exception for "advances" with a broader carve out allowing the repayment of certain discretionary bonuses unrelated to performance upon a termination of employment for misconduct, introduce a new exception for certain "transferrable credentials,"[1] and delay the effective date until December 19, 2026. While this proposed amended bonus exception seems to address any concerns regarding sign-on bonuses, it would provide only partial comfort for employers as it does not apply to resignations as currently drafted.

Violating the NY Act could result in administrative fines of up to $5,000 per violation. Employees do not have a private right of action to sue for damages, but could use the law as a defense in any attempted action for repayment (and may recover attorneys' fees if they successfully defend an action by an employer seeking to enforce an unlawful repayment provision). The pending version of the amended NY Act expressly authorizes an aggrieved employee or prospective employee to file a complaint with the New York Department of Labor.

California: In California, Assembly Bill 692 ("AB 692") became effective on January 1, 2026. AB 692 amended certain provisions of the California Business and Professions Code and the California Labor Code to broadly prohibit contracts that (a) require a worker to pay an employer for a "debt," (b) authorize an employer to resume or initiate collection of or end forbearance on a "debt," or (c) impose any penalty, fee, or cost on a worker, in each case upon termination of employment. "Debt" is defined as "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, including, but not limited to, for employment-related costs, education-related costs, or a consumer financial product or service, regardless of whether the debt is certain, contingent, or incurred voluntarily." The term "worker" is not limited to current or prospective employees, and, in this respect, AB 692 is broader than the NY Act will be if New York's currently pending amendments are enacted. AB 692 defines "worker" to include any "natural person who is permitted to work for or on behalf of an employer or business entity, or who is permitted to participate in any other work relationship, job training program, or skills training program. AB 692 includes an express exception for contracts requiring the repayment of "discretionary, unearned monetary payments issued at the start of employment and not tied to specific performance," provided that the following conditions are met:

- the repayment terms are documented separately from the primary employment contract;
- the worker is notified of their right to consult an attorney and provided at least five business days to obtain such counsel;

[1] A "transferable credential" is a degree, license or certificate that evidences skill proficiency or course completion that is widely recognized in the relevant industry as a qualification for employment, or that otherwise provides skills or qualifications that demonstrably enhance the employee's employability with other employers. This exception does not cover training that is specific to the employer's systems or operations, instruction that does not qualify the employee for a new occupational title, classification, or industry-recognized credential (but instead consists of skillful variations of general processes known to the relevant trade or industry), or safety and compliance training mandated by federal, state or local law). Repayments for transferable credentials are permitted if (a) the agreement is documented separately from any employment agreement, (b) the agreement does not require obtaining the credential as a condition of employment, (c) the agreement specifies the repayment amount in advance, which does not exceed the actual cost to the employer, (d) the agreement provides for proration during any required employment period without acceleration upon termination, and (e) repayment is not triggered by termination except where the termination is for misconduct (but not resignation).

- any repayment obligation based on early separation is not subject to interest and is prorated based on the remaining term of any retention period, which shall not exceed two years from the receipt of payment;
- the worker has the option to defer receipt of payment to the end of the applicable retention period without any repayment obligation; and
- the separation of employment triggering repayment is by voluntary resignation or by the employer due to the employee's misconduct.

This exception would presumably allow retention-based signing bonuses, but would limit the effective period to two years and the repayment obligation would need to step down on a prorated basis over the retention period (rather than be repayable in full until that period ends).

Similar to the NY Act, AB 692 also excludes repayments for "transferable credentials"[2] if certain conditions are met. Also excluded from AB 692's coverage are agreements entered into under any loan repayment assistance program or loan forgiveness program provided by a federal, state, or local governmental agency, agreements related to enrollment in an apprenticeship program approved by California's Division of Apprenticeship Standards, and agreements related to the lease, financing, or purchase of residential property.

In California, employees have a private right of action for violation of AB 692 and may sue for: (a) the greater of (i) actual damages or (ii) $5,000 per impacted worker; (b) an injunction; and (c) attorneys' fees and costs. These rights are in addition to any other available rights, remedies or penalties available under California law for unfair competition.

Next Steps: Employers in New York and California should review their form new hire agreements and the terms of any other arrangements with employees and other workers which might include repayment provisions tied to termination of the relationship. Where necessary, employers should be preparing revisions to bring offer letters, bonus agreements and employee loan programs into compliance. The pending amendments in New York add uncertainty to this environment, with no clear timeline for a resolution. While employers should continue to monitor those developments, the enacted version of the NY Act was effective as of December 19, 2025, and so employers should immediately be suspending use of non-compliant provisions.

[2] AB 692 defines a "transferable credential" as "a degree that is offered by a third-party institution that is accredited and authorized to operate in the state, is not required for a worker's current employment, and is transferable and useful for employment beyond the worker's current employer." Similar to New York's proposed amendment, repayments for transferable credentials are permitted in California if (a) the agreement is documented separately from any employment agreement, (b) the agreement does not require obtaining the credential as a condition of employment, (c) the agreement specifies the repayment amount in advance, and such amount does not exceed the actual cost to the employer, (d) the agreement provides for proration during any required employment period without acceleration upon termination, and (e) repayment is not triggered by termination except where the termination is for misconduct (but not resignation).

For further information regarding this memorandum, please contact one of the following authors:

EXECUTIVE COMPENSATION AND EMPLOYEE BENEFITS

Linda Barrett
+1-212-455-2488
linda.barrett@stblaw.com

Andrew Blau
+1-212-455-2380
andrew.blau@stblaw.com

Tristan Brown
+1-650-251-5140
tbrown@stblaw.com

Laura R. Gallo
+1-212-455-6651
laura.gallo@stblaw.com

Gregory T. Grogan
+1-212-455-2477
ggrogan@stblaw.com

Harry N. Hudesman
+1-650-251-5264
harry.hudesman@stblaw.com

Jana I. Hymowitz
+1-212-455-2170
jana.hymowitz@stblaw.com

Jamin R. Koslowe
+1-212-455-3514
jkoslowe@stblaw.com

Caitlin A. Lucey
+1-212-455-2775
caitlin.lucey@stblaw.com

Jeannine McSweeney
+1-212-455-3349
jeannine.mcsweeney@stblaw.com

Gillian Emmett Moldowan
+1-212-455-7716
gillian.moldowan@stblaw.com

Laurence M. Moss
+1-212-455-2280
larry.moss@stblaw.com

Erica Rozow
+1-202-636-5961
erica.rozow@stblaw.com

David E. Rubinsky
+1-212-455-2493
drubinsky@stblaw.com

Ryan D. Stott
+1-212-455-6761
ryan.stott@stblaw.com

Gary Tashjian
+1-212-455-3162
gary.tashjian@stblaw.com

LABOR AND EMPLOYMENT

Andrew M. Kofsky
+1-212-455-7437
andrew.kofsky@stblaw.com

Daniel J. Venditti
+1-212-455-7387
daniel.venditti@stblaw.com