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Restrictions on “Stay-or-Pay” Provisions in U.S. Employment Agreements Gain Momentum

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In this article, the authors review recent state legislation that curtails or abolishes so-called “stay-or-pay” provisions in employment agreements.

New York, California, and other states have recently enacted legislation that curtails or abolishes so-called “stay-or-pay” provisions in employment agreements. “Stay-or-pay” agreements—sometimes referred to as training repayment agreement provisions (TRAPs)—typically require workers to reimburse employers for sign-on bonuses, relocation expenses, education, training, or other payments if their employment terminates before a specific time. This new legislation reflects the broader policy shift in the US toward limiting employment provisions that restrict worker mobility.

NEW YORK TRAPPED AT WORK ACT

On December 19, 2025, New York Governor Kathy Hochul signed the Trapped at Work Act into law, making New York one of the growing number of states to enact legislation combatting “stay-or-pay” clauses in employment agreements.

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New York’s Trapped at Work Act prohibits employers from requiring, as a condition of employment, that a worker or prospective worker execute an “employment promissory note.” The definition of an “employment promissory note” is not limited to a traditional promissory note but rather includes “any instrument, agreement, or contract provision that requires a worker to pay the employer, or the employer’s agent or assignee, a sum of money if the worker leaves such employment before the passage of a stated period of time.” The Act specifically notes that an employer cannot require a worker to repay money that the employer characterizes as reimbursement for training provided to the worker by the employer or a third party.

“Worker” is broadly defined and includes employees, independent contractors, interns, externs, and volunteers. The Act applies to all employers in New York, regardless of size.

The Trapped at Work Act contains several exceptions, permitting agreements that:

- (a) Require a worker to repay money advanced to the worker by the employer (unless the money was used to pay for training related to the worker’s employment with the employer);
- (b) Require a worker to pay for property that the employer has sold or leased to the worker;
- (c) Require educational personnel to comply with terms or conditions of sabbatical leave; or
- (d) Are part of a collective bargaining agreement.

The Trapped at Work Act specifically notes that these “stay-or-pay” agreements are “unconscionable,” “against public policy,” “unenforceable,” and “null and void.” However, if any such provision is part of a larger employment agreement, the invalidity of a “stay-or-pay” provision will not render unenforceable other portions of the employment agreement.

Enforcement lies with the Labor Commissioner, who may fine employers in violation of the law between \$1,000 and \$5,000 for each violation. While no affirmative private right of action currently exists under the Trapped at Work Act for workers, a worker who successfully defends against their employer’s attempts to enforce a void “stay-or-pay” provision in an employment agreement can recover attorneys’ fees.

While the Trapped at Work Act is currently in effect for any agreement signed on or after December 19, 2025, the New York Assembly introduced proposed amendments on January 6, 2026. If enacted as currently proposed, the amendments would postpone the Act’s effective date to December 19, 2026; remove independent contractors, interns, externs,

and volunteers from coverage under the Act; permit agreements requiring an employee to reimburse an employer for the cost of tuition, fees, and required educational materials for a transferable credential; and give the Labor Commissioner more discretion to set penalties, including consideration of the employer’s size, the employer’s good faith belief that it was in compliance, the gravity of the violation, and the history of previous violations.

NATIONAL TREND TOWARD RESTRICTING “STAY-OR-PAY” AGREEMENTS

With the passage of the Trapped at Work Act, New York joins numerous states that have recently enacted legislation regarding “stay-or-pay” agreements.

California recently enacted California Assembly Bill (AB) 692, which took effect on January 1, 2026. AB 692 prohibits employers from including in any employment contract, or requiring a worker to execute as a condition of employment or a work relationship, a contract that mandates payment to the employer upon the worker’s separation from employment. AB 692 exempts certain agreements from its scope:

- (a) loan repayment or forgiveness agreements related to programs provided by government agencies;
- (b) certain tuition repayment agreements;
- (c) apprenticeship program repayment agreements for certain programs;
- (d) contracts awarding retention bonuses not tied to job performance at the outset of employment, subject to certain requirements; and
- (e) leasing, financing, and purchase-of-land contracts.

Even in these limited circumstances, however, employers must meet stringent requirements for such agreements to be enforceable. AB 692 renders void “stay-or-pay” agreements executed on or after January 1, 2026.

Colorado enacted restrictions on employers’ use of TRAPs in 2022 and added additional restrictions in 2024. The Colorado law prohibits employers from recovering from workers expenses related to “normal, on-the-job training.” Where training expenses are recoverable (i.e., where expenses are “distinct from” normal, on-the-job training), the Colorado law limits the employer’s recovery to the “reasonable costs” of the training, which decreases proportionally over the course of two or more years (depending on whether the employer is public or private) based

on the number of months that have passed since the training was completed. The law contains a private right of action, allowing any worker to bring a civil action against an employer in violation of the law and recover actual damages, injunctive relief, a penalty of \$5,000, reasonable costs, and attorneys’ fees. The 2024 amendment permits the Colorado Attorney General to bring an action and recover three times the amount of any employer’s recovery or attempted recovery of training costs.

As part of a broader restriction on noncompete agreements, Wyoming permits only prorated recovery of relocation, education, and training costs based on the worker’s term of service: up to 100% of costs are recoverable for service of less than two years, 66% are recoverable for service between two and three years, and 33% are recoverable for service between three and four years. Contracts entered into on or after July 1, 2025 providing for repayment in accordance with this schedule will be enforceable.

Connecticut has prohibited employers with over 25 employees from imposing job-related debt on employees since 1985. Indiana and Pennsylvania have enacted restrictions on “stay-or-pay” agreements specific to the healthcare industry, and the Ohio Senate introduced similar legislation in 2025, which is currently pending in the Senate Committee.

KEY TAKEAWAYS FOR EMPLOYERS

- Review existing employment agreements, offer letters, training agreements, reimbursement agreements, and promissory notes with workers to confirm compliance with current law.
- For New York, California, and other relevant states, employers should revise their form and template agreements to remove any provisions that require an employee to pay the employer a certain sum of money if the worker separates from employment before a specific period of time passes.
- Consider alternative employee retention mechanisms, such as deferred compensation, employee stock options, and retention bonuses.
- Monitor for updates to state legislation in New York and other states where workers are located.

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