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New Laws Enacted in 2025 Impacting California Employers

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In this article, the authors discuss some of the most significant developments that took place during California's 2025 legislative session affecting California employers.

With the conclusion of California's 2025 legislative session, businesses that operate in California should review and prepare for new employment laws that will take effect in 2026. What follows is a summary of the most significant developments affecting California employers.

PROHIBITION ON "STAY-OR-PAY" CONTRACT TERMS (AB 692)

Assembly Bill 692¹ makes it unlawful for employment or independent contractor agreements to include provisions that (1) impose penalties, fees, or costs (including replacement hire fees, reimbursement for immigration- or visa-related costs, or quit fees) on an employee if the employment or service relationship ends, or (2) require repayment of debts if the employment or service relationship ends.

The law provides a few exceptions for contracts related to voluntary tuition assistance programs and signing bonuses. Employers may still require repayment of signing bonuses only if the following conditions are met:

- The signing bonus and repayment obligations are set forth in a separate agreement outside the offer letter or employment agreement;

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- The employee is informed of the right to consult with an attorney and is provided with at least five business days to obtain the advice of counsel prior to the expiration of the offer;
- Repayment is not subject to interest accrual, and it is prorated based on the remaining portion of the retention period, which may not exceed two years;
- The employee has the option to defer receipt of the bonus until the end of the retention period; and
- Repayment is required only if the employee resigns or is terminated for misconduct (as defined under the California Unemployment Insurance Code).

While the law provides an exclusion for signing bonuses, it is silent regarding retention bonuses offered during the term of the employment relationship. Because of the ambiguous statutory language, a conservative approach would be to pay retention bonuses only upon completion of the retention period rather than making payment immediately subject to a repayment obligation in the event the employee departs early.

This law only applies to contracts entered into on or after January 1, 2026. Inclusion of unlawful repayment or penalty provisions will result in the entire contract being rendered void and unenforceable as violative of California Business and Professions Code Section 16600.

Additionally, employees are granted a private right of action to challenge contracts that violate the law, and employers face liability for attorney fees and the greater of actual damages or \$5,000 per worker.

Employer Action Items

- Review template employment agreements and offer letters; and
- Work with an employment lawyer to create compliant agreements for signing and retention bonuses.

EXPANDED WORKPLACE NOTICE REQUIREMENTS (SB 294)

Beginning February 1, 2026, the Workplace Know Your Rights Act (Senate Bill 294)² requires employers to provide an annual written notice to all current employees, and new hires upon onboarding, outlining:

- The right to workers' compensation benefits;

- The right to be notified of an upcoming inspection of employer records by immigration agencies;
- Protections from “unfair immigration-related practices against a person exercising protected rights”;
- Employee rights to “organize a union or engage in concerted activity in the workplace”; and
- Employee rights afforded by the Constitution “when interacting with law enforcement at the workplace,” including the right of due process and the right to be free from unreasonable searches.

The law mandates that the California Labor Commissioner develop a template notice for employer use on or before January 1, 2026. The template will be made available in several languages, and employers are responsible for providing the notice in the language they normally use to communicate employment-related information to employees. If the Labor Commissioner does not provide a template in an employee’s primary language, a notice in English will suffice. Employers must retain proof of compliance, including the date the written notice was provided, for three years.

Additionally, California employers must allow employees to designate an emergency contact and specify whether that contact should be notified if the employee is arrested or detained on the worksite or if the employer has knowledge of an arrest or detention off-site during work hours. Employers must give existing employees the opportunity to designate an emergency contact by March 30, 2026, and they must collect contacts from new hires at onboarding.

Employers can be subject to penalties of up to \$500 per employee for each failure to provide the required notice and up to \$500 per employee per day (up to a maximum of \$10,000 per employee) for emergency contact violations.

Employer Action Items

- Disseminate the new notice to current employees before February 1, 2026, and provide it to new hires during onboarding. Each year, the Labor Commissioner will produce an updated notice that must be provided to all employees. It is important to note that simply posting the notice (such as in an employee break room) is not sufficient. The notice must be provided to employees individually in a manner that it will be received within one business day of sending (e.g., via email or handing it to employees);

- Because of the recordkeeping requirement and risk of penalties, develop a system for tracking when each employee receives the notice. That could be as simple as collecting “read receipts” when the notices are disseminated by email or, conservatively, collecting an acknowledgment from each employee; and
- Before March 30, 2026, inform your California workforce of their right to name an emergency contact to be notified in the event of an arrest or detention. Create a system to allow employees and new hires to make such designations and update the contact information for the duration of their employment. Train human resources professionals regarding the company’s obligation to notify the emergency contact in the event of an arrest or detention.

ENHANCED PAY SCALE DISCLOSURE AND PAY EQUITY RIGHTS (SB 642)

Existing California law requires employers with 15 or more employees to include the pay scale of a position in job postings. Addressing a perception that employers were flouting the spirit of the law by including implausibly broad pay scales, Senate Bill 642³ amends California Labor Code Section 432.3 to clarify that the pay scale included in each job posting must be a “good faith estimate of the salary or hourly wage range that the employer reasonably expects to pay for the position upon hire.”

The law also strengthens the statute prohibiting gender pay disparities. Employees who believe they have been paid subject to unlawful pay practices now have a longer period (three years from the last violation) to file a lawsuit, which may seek monetary relief for pay practices reaching as far back as up to six years.

Importantly, the updated law clarifies that employers need to consider equity not just in base wages but in all forms of compensation, including stock grants, stock options, profit sharing, overtime pay, bonus awards, vacation and holiday pay, transportation allowances or reimbursement, and fringe benefits.

Employer Action Items

- Include a good faith estimate of the pay scale in job postings for positions capable of being performed in California, including remote work. Failure to comply will expose employers to an enforcement action by the Labor Commissioner or, more

concerning, a class action lawsuit or Private Attorneys General Act (PAGA) representative action; and

- Consider working with employment law specialists to conduct gender pay equity audits. When making job offers, cross-check the total compensation – including equity or stock option grants – with others performing substantially similar work to ensure any disparities are defensible and lawful.

TRAINING RECORDS MUST BE INCLUDED IN PERSONNEL FILES (SB 513)

Existing law grants an employee the right to receive a copy of their personnel file, including any records relating to the employee's performance or complaints concerning the employee. As of January 1, 2026, according to Senate Bill 513,⁴ the personnel file must also include a record of the training the employee received, including identification of the training provider, the duration and date of the training, the content covered by the training, and any certification received.

Employer Action Items

- Include a record of California employee attendance at mandatory anti-harassment and workplace violence training in the personnel file when providing a copy to a requesting employee; and
- Consider whether to have employees complete an individualized acknowledgement of training that contains the required information and can be easily placed in the personnel file.

UPDATED PAY DATA REPORTING REQUIREMENTS (SB 464)

Existing law requires private employers with more than 100 employees to submit annual pay data reports categorized by race, ethnicity, and gender demographics in various job categories, for each California office or facility, to the California Civil Rights Department. While the state agency is permitted to publish aggregated reports, an employer's individual report is kept confidential and is not subject to inspection through public records requests.

Whereas a court previously had discretion to levy a penalty of \$100 per employee when the employer failed to file the required report, Senate Bill 464⁵ makes imposition of that penalty mandatory. Starting in 2027, the pay data report will need to include more fine dissection of demographic pay data across 23 job categories, up from the current 10 broad categories.

Employer Action Items

- Employers with headcount of 100 or more employees, should prepare for the submission of a pay data report by May 13, 2026. Reports will be due each subsequent year on the second Monday of May.

NOTES

1. https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=202520260AB692.
2. <https://legiscan.com/CA/text/SB294/2025>.
3. <https://legiscan.com/CA/text/SB642/id/3272631>.
4. <https://legiscan.com/CA/text/SB513/id/3272937>.
5. <https://legiscan.com/CA/text/SB464/id/3273318>.

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