



New York's Trapped at Work Act: What Employers Need to Know About "Stay or Pay" Employment Arrangements

New York has enacted the "Trapped at Work Act," a new law that significantly restricts the use of employee repayment provisions tied to continued employment. The statute prohibits certain "employment promissory notes" and imposes civil penalties for non-compliance. Although the law's effective date is not entirely clear, employers should begin preparing now.

Effective Date Uncertainty

The Act was originally signed into law on December 19, 2025, and subsequently amended on February 13, 2026. Each version states that the law will take effect one year after enactment, creating ambiguity as to whether the operative date is December 19, 2026, or February 13, 2027. In the absence of further legislative or regulatory guidance, employers should plan for compliance with the December 19, 2026 date to minimize risk.

What the Law Prohibits

The Act renders void and unenforceable any agreement or contract provision that requires an employee or prospective employee to pay a sum of money to the employer (or its agent) if the employment relationship ends before a stated period. These prohibited arrangements, commonly referred to as "employment promissory notes," are deemed unconscionable, against public policy, and unenforceable. For example, under the Act, an agreement requiring an employee to repay a fixed amount (e.g., \$15,000) if they resign or are terminated within a defined time period (e.g., 24 months) is not permissible.

Importantly, employers should expect that courts and regulators may evaluate these provisions based on substance rather than form. Any repayment obligation that functions as a penalty for leaving employment, even if labeled differently, may fall within the prohibition and be invalidated.

Key Exceptions

Not every agreement providing for repayment will be impermissible. The Act includes several narrowly drawn exceptions:

1. Transferable Credential Agreements

Repayment obligations related to training or education are permitted if they involve a "transferable credential," which means that the credential is portable and recognized outside of the employer, provided that the following conditions are all met: (i) the agreement is set forth in a written contract separate from the employment agreement; (ii) the employee is not required to obtain the credential as a condition of employment; (iii) repayment is capped at the employer's actual cost and specified in advance; (iv) the repayment obligation is prorated over time and does not accelerate upon early separation; and (v) repayment is not required if the employee is terminated by the employer for any reason other than misconduct.

2. Bonuses, Relocation Assistance, and Similar Incentives

Repayment provisions for bonuses, relocation assistance, or other non-educational incentives may be permissible, provided that:

- The payment is not conditioned on job performance or structured in a way that effectively penalizes separation;
- Repayment is not required if the employee is terminated by the employer for any reason other than misconduct; and
- Repayment is not required where the employer has materially misrepresented job duties or requirements.

3. Other Permitted Arrangements

The statute does not apply to:

- Voluntary agreements for the purchase or lease of property from the employer;
- Certain sabbatical leave agreements for educational personnel; or
- Programs established through a collective bargaining agreement.

Enforcement and Penalties

The New York Commissioner of Labor is responsible for enforcement. The Act provides for civil penalties ranging from \$1,000 to \$5,000 per violation, with each affected employee or prospective employee constituting a separate violation.

In assessing penalties, the Commissioner may consider the size of the employer's business, the employer's good-faith belief in compliance, the gravity of the violation, and any history of prior violations. Aggrieved individuals may file a complaint with the Commissioner; however, the Act does not create a private right of action. Employers should note, however, that employees may still attempt to challenge repayment provisions under other legal theories.

Recommended Employer Actions

Employers operating in New York should take proactive steps now to ensure compliance:

- **Audit agreements and policies:** Review offer letters, employment agreements, onboarding materials, training repayment agreements, and bonus or relocation policies for potentially prohibited provisions.
- **Revise or eliminate non-compliant clauses:** Remove or restructure repayment obligations that could be deemed employment promissory notes.
- **Evaluate existing agreements:** Be prepared to cease enforcement of any provisions that would become unenforceable once the law takes effect, including those already in place.
- **Assess third-party arrangements:** Confirm that any training or repayment agreements administered through vendors comply with statutory requirements.
- **Train HR and management:** Ensure that company personnel understand the law's restrictions and apply them consistently.
- **Apply a substance-over-form analysis:** Carefully evaluate whether any repayment provision could be viewed as a penalty for ending employment.

Key Takeaways

The Trapped at Work Act represents a significant shift in how New York regulates employee repayment obligations. Given the uncertainty surrounding the effective date and the law's broad scope, employers should prepare for compliance by December 19, 2026, revise existing agreements, and avoid reliance on repayment provisions that could expose them to enforcement risk. For assistance in reviewing agreements, implementing compliant policies, or for any employment law related matters, please contact:

Kimberly B. Malerba, Esq.
516.663.6679
kmalerba@rmfpc.com

Nicole E. Osborne, Esq.
516.663.6687
nosborne@rmfpc.com