Wealth Accumulation in College Savings Accounts and Educational Opportunities*

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Abstract

529 college savings plans have become more prevalent than federal student loans among undergraduates, yet their educational impacts remain largely unexplored. This paper examines how wealth gains in 529 plans shape educational opportunities using variation in target-date fund designs within these plans. I find that 529 wealth gains substantially increase four-year college attendance, with the effect per $1,000 similar to that of targeted grant aid. These wealth gains also reduce student loan borrowing and boost private K-12 school enrollment. However, 529 wealth gains accrue disproportionately to upper-income households, exacerbating the four-year college attendance gaps across both socioeconomic and racial lines.

JEL classification: D14, G50, I22, I23, I24

Keywords: 529 College Savings Plans, Target-Date Funds, College Attendance, Student Loans, K-12 Schools, Inequality in College Access

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