THE ALLIANCE DEVELOPMENT FUND, INC.

July 2009

Dear Fellow Investors and Friends of ADF:

Now that we've reached the halfway mark of 2009, it is a good time to think about progress on our financial goals for the year as well as tax planning.

ADF offers a variety of savings and investment options, including Individual Retirement Accounts (IRAs). A common question is: Should I invest in a Roth IRA or a traditional IRA?

There is no easy answer to this question. Traditional IRAs and Roth IRAs share certain general characteristics. Both feature tax-deferred growth of earnings and allow you to contribute up to $5,000 (in 2009) of earned income, plus an additional $1,000 "catch-up" contribution if you're 50 or older. Both allow certain low- and middle-income taxpayers to claim a partial tax credit for amounts contributed. But important differences exist between these two types of IRAs.

A traditional IRA allows anyone with earned income who is under age 70½ to contribute the maximum $5,000, plus catch-up if eligible. However, your ability to deduct traditional IRA contributions will depend on your annual income, your filing status, and whether you or your spouse is covered by an employer-sponsored plan. You may be able to deduct all, a portion, or none of your contribution for a given year. Any distribution from a traditional IRA will be subject to income taxes to the extent that the distribution represents earnings and deductible contributions. You may also be hit with a 10 percent early withdrawal penalty if you draw money out before age 59½ (there are exceptions to this rule). Beginning at age 70½, you must begin to take annual distributions from a traditional IRA. (Note: the Worker, Retiree, and Employer Recovery Act of 2008 waives required minimum distributions for the 2009 calendar year.)

With a Roth IRA, no age limitation applies to contributions. As long as you have taxable compensation and qualify, you can contribute to a Roth IRA even after age 70½. However, your ability to contribute and the amount you'll be able to contribute (up to the annual limit) will depend on your income and tax filing status. Although Roth IRA contributions are not tax deductible, Roth IRAs have other advantages. You're not required to take distributions from a Roth IRA at any age, which gives you more estate planning options. Another key strength: Qualified withdrawals will avoid both income tax and the early withdrawal penalty if certain conditions are met. Nonqualified withdrawals will be taxed and penalized only on the earnings portion of the withdrawal, since the principal is your own after-tax money.

Your personal goals and circumstances will determine which type of IRA is right for you. If you wish to minimize taxes during retirement or preserve assets for your heirs, a Roth IRA may be the way to go. A traditional IRA may make more sense if you can make deductible contributions and want to lower your taxes while you're still working.

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One advantage of ADF IRAs is that we pay the annual fees for you. This can save you a significant amount of money over time by preserving your effective rate of return. And as with all ADF investments, you'll receive stable returns while helping build churches where lives are being transformed.

Thank you for your partnership with Alliance churches through your investments in ADF.

Please contact either Zachary Gray or Janet Curtiss, ADF Investment Services Representatives, if you'd like more specific information about ADF IRAs.

As always, please let me know if you have questions, comments, or prayer requests. They are most welcome.

Sincerely,

Lawrence L. McCooey , CPA, PFS
President

P.S. You can review current ADF rates here.